UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 1999

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission file number: 1-14870

SANPAOLO IMI S.p.A.

(Formerly ISTITUTO BANCARIO SAN PAOLO DI TORINO - ISTITUTO MOBILIARE ITALIANO S.p.A.)
(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza San Carlo 156, 10121 Turin, Italy

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 2 Ordinary Shares of Euro 2.8 par value each	The New York Stock Exchange
Ordinary Shares of Euro 2.8 par value each (the "Shares")	The New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐ Not applicable ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☒ Item 18 ☐

Form 20-F

SANPAOLO IMI S.p.A.

SANPAOLO IMI S.p.A.

(A joint stock company incorporated under the laws of Italy and
registered in Turin, number 4382/91, at Piazza San Carlo 156, Turin, Italy)

Annual Report on Form 20-F
for the Year ended December 31, 1999

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PRESENTATION OF INFORMATION

SANPAOLO IMI S.p.A. (the "Bank" or "Sanpaolo IMI") publishes consolidated financial statements which are included elsewhere in this Annual Report, (the "Consolidated Financial Statements") for the Bank and its consolidated subsidiaries constituting the Sanpaolo IMI Group (the "Sanpaolo IMI Group" or the "Group") in "Euro", the new single unified currency that was introduced in Italy and in 10 other participating member states of the European Union ("Member States" and "EU") on January 1, 1999.

Sanpaolo IMI was formed from the merger in 1998 of Istituto Bancario Sanpaolo di Torino S.p.A. ("Sanpaolo") and Istituto Mobiliare Italiano S.p.A. ("IMI").

In this Annual Report, references to "dollars" or "$" are to United States dollars and references to "Euro", "euro" and "€" are to Euro . For the purpose of this Annual Report, "billion" means a thousand million. The noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the "Noon Buying Rate") for the euro on June 21, 2000 was Euro = $0.9455.

The Noon Buying Rate for the euro on June 21, 2000 may differ from the actual rates during the year used in the preparation of Sanpaolo IMI's Consolidated Financial Statements and dollar amounts in this Annual Report may differ from the actual dollar amounts that were translated into euro in the preparation of such financial statements in accordance with Italian accounting standards (Italian GAAP as defined below).

The financial statements included herein have been prepared in accordance with generally accepted accounting principles in Italy, including Legislative Decree No. 87 of January 27, 1992, which implemented the European Commission ("EC") Directive 86/635, and Bank of Italy regulations of January 16, 1995, and supplemented by the accounting principles issued by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* (collectively, "Italian GAAP"), which differ in certain significant respects from generally accepted accounting principles in the United States ("US GAAP"). For example, while the audited financial statements of Sanpaolo IMI Group include the accounts of the Bank and those banking and finance companies in which it holds a controlling voting interest, insurance and real estate companies controlled by the Bank are accounted for using the equity method.

In Italy, there are no specific legal rules or accounting principles concerning the accounting treatment of business combinations, including mergers such as that of Sanpaolo and IMI. As a result, merger accounting in Italy has developed on the basis of certain rules, including tax rules, specifically applicable to merger transactions and combines aspects of the US purchase and pooling of interests methods of accounting.

The Italian practice does not therefore require a choice between two mutually exclusive methods but depends rather on the provisions of the business combination agreement. The following is a summary of the principal points of Italian practice as they relate to the merger of Sanpaolo and IMI:

- when combinations are effected through the exchange of shares, assets and liabilities (at historical values) are generally aggregated, as in consolidation, net of intercompany eliminations, and shareholders' equity is also aggregated, after elimination of cross-holdings.

The merger by incorporation into Sanpaolo of IMI (effective on November 1, 1998) was accounted for as follows:

Under Italian GAAP:

- the assets and liabilities of Sanpaolo and IMI were aggregated at their historical value with intercompany eliminations;
- the shareholders' equity of Sanpaolo and IMI were aggregated at their historical value, taking into consideration the cancelation of the Sanpaolo shares held by IMI.

The financial statements of Sanpaolo IMI for the year ended December 31, 1999 therefore include the assets and liabilities of IMI, net of any reciprocal balances. The assets and liabilities of Sanpaolo IMI have been recorded at book value. The 1998 statement of income includes the profits and losses of IMI. Transactions between the two groups during the period prior to November 1, 1998 have not been eliminated.

Under US GAAP:

- the merger would have been accounted for by the purchase method. Assets and liabilities acquired would have been recorded at fair value and goodwill was recorded as an asset to be amortized through the income statement over 20 years.

The financial statements for 1999 presented in this Annual Report refer to the accounts of the Sanpaolo IMI Group. Those relating to 1998 account for the merger between Sanpaolo and IMI under Italian accounting rules which combine aspects of the purchase and pooling of interests methods of accounting under US GAAP. However this pooling of interest has been applied, under Italian GAAP, only for the 1998 financial statements. The financial statements for the year ended December 31, 1997 presented in this Annual Report refer to the accounts of Sanpaolo only. See Item 8 "Selected Financial Data".

Following the sale in 1999 of an additional 20% shareholding in Crediop S.p.A. ("Crediop"), a subsidiary specialized in loans to public entities (which with its subsidiaries Crediop B.V. Crediop Overseas Bank and C. Fin were consolidated in the Sanpaolo IMI Group until December 31, 1998), the 40% residual stake has been accounted for by the equity method and not wholly consolidated. In addition, Imigest Immobiliare (and its subsidiaries Tradital and Immobiliare Italia Gestioni), which were included in a real estate portfolio spun off by the Group during 1999, are no longer consolidated. See Item 1. "Description of Business".

NHS-Nuova Holding Subalpina ("NHS"), a merchant banking investment subsidiary, 51% owned by Sanpaolo IMI, and Fideuram Gestions, established in October 1999 by the subsidiary Banca Fideuram, have been consolidated.

EXCHANGE RATES

The following table sets forth, for the periods indicated, certain information regarding the Noon Buying Rate for the Italian lira, expressed in Italian lire per U.S. dollar.

Year ended December 31,	High	Low	Average(1)	At Period End
1994	1,707	1,511	1,605	1,622
1995	1,736	1,569	1,629	1,584
1996	1,602	1,496	1,538	1,519
1997	1,841	1,516	1,712	1,769
1998	1,828	1,592	1,737	1,654

(1) Average of the rates for the last business day of each month in the period.

On January 1, 1999, the Italian lira became a member currency of the Euro at a fixed conversion rate of Euro 1.00 = Lire 1,936.27. The following table sets forth, for the period indicated, certain information regarding the Noon Buying Rate for the Euro expressed in Euro per U.S. dollar.

Year ended December 31,	High	Low	Average (1)	At period End
1999	0.9984	0.8466	0.9330	0.9930
2000 (through June 21, 2000)	1.1247	0.9676	1.0528	1.0576

(1) Average of the rates for the last business day of each month in the period except for June 2000 for which the date used is June 21, 2000.

Beginning January 4, 1999, the Sanpaolo IMI ordinary shares (“Shares”) commenced trading on “Mercato telematico azionario” (“Telematico”), managed by Borsa Italiana S.p.A. (“ Borsa Italiana”) in Euro. Fluctuations in the exchange rate between the Euro and the U.S. dollar will affect the U.S. dollar equivalent of the Euro price of the Sanpaolo IMI Shares and the price of the Sanpaolo IMI American Depositary Shares (“ADSs”) on the New York Stock Exchange (“NYSE”). Cash dividends will be paid by Sanpaolo IMI in Euro, and exchange rate fluctuations will also affect the U.S. dollar amounts received by owners of ADSs upon conversion by the depositary of dividends on the underlying Sanpaolo IMI Shares.

From January 1999, the euro is exchangeable at the irrevocable fixed rates among the member European currencies, including the Italian lira. Until June 2002, the former national currencies will coexist with the euro and from July 2002 the euro is expected to supersede the national currencies. Other actual and potential EU countries may also adopt the Euro in the future.

Monetary policy within the 11 Member States which have adopted the euro (the “Euro zone”) is set by the European Central Bank (the “ECB”). The ECB has the objective of achieving price stability and adjusts interest rates in line with such objective without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the new currency. In January 1999, the euro was quoted at a high of $1.1877 and gradually fell during the year to parity with the dollar. In the first months of 2000, the Euro fell below parity with the U. S. currency.

DIVIDENDS

The total dividend paid by Sanpaolo IMI each year has been approved by the Annual Shareholders Meeting. The dividends related to each year are paid in the following year to which they relate. Dollar amounts have been converted at the Noon Buying Rate in effect on the respective payment dates.

Year	Dividends per share	
1994	L. 240	$0.144
1995	L. 240	$0.155
1996	L. 280	$0.167
1997	L. 110	$0.062
1998	L. 900	$0.486
1999	L.1,000 / € 0.52(1)	$0.45(2)

(1) Approved at the Annual Shareholders Meeting. held on April 28, 2000 and paid on May 25, 2000.
(2) Based on the Noon Buying Rate as of May 22, 2000.

While Sanpaolo IMI expects to declare and pay dividends on the Shares in the future, the payment of dividends will depend upon the Sanpaolo IMI's earnings, financial conditions, governmental regulations and policies and other factors.

FORWARD LOOKING STATEMENTS

This Annual Report contains forward looking statements which reflect management's current views with respect to certain future events and financial performance, such as statements that include the words or phrases “will likely result", “are expected to", “will continue”, "is anticipated", “estimate", "risk", "VAR", "target", "goal", “project" or similar expressions. Such statements include, but are not limited to, statements under the following headings: (i) Item 1. “Description of Business” and “-Loan Portfolio – Current Account Overdraft”, (ii) Item 3."Legal Proceedings” including statements regarding the likely effect of matter discussed therein, (iii) Item 9. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and (iv) Item 9A. “Risk Management”. Actual results may differ materially from those projected or implied in the forward looking statements.

Furthermore, certain forward looking statements involve risks and uncertainties that could significantly affect expected results and are based upon assumptions of future events which may not prove to be accurate. In particular, this document includes forward looking statements relating, but not limited to, the Group's potential exposures to various types of market risk. In addition, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. See "Market Risk", "Currency Risk", "Trading Market Risk" and "Non-trading Market Risk". By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains and losses could materially differ from those that have been estimated.

The following factors could cause actual results to differ materially from those projected or implied in any forward looking statements:

- general economic and competitive conditions in Italy and in the other markets served by the Group,
- unexpected turbulence in interest rates, foreign currency exchange rates or equity prices,
- regional or general changes in asset valuations,
- changes in Italian and foreign laws, regulations and taxes,
- the adequacy of loss reserves,
- the effects of non-linear market behavior that cannot be captured by linear statistical models such as the value at risk model used by the Group,
- changes in competition and pricing environments,
- natural disasters,
- the inability to hedge certain risks economically,
- acquisitions or restructurings,
- technological changes,
- internet operations,
- changes in consumer spending and saving habits, and
- the success of the Group in managing the risks involved in the foregoing.

The foregoing factors should not be considered as exhaustive. Due to such uncertainties and risks, readers should not place undue reliance on such forward-looking statements which speak only as of the date of this Annual Report. Sanpaolo IMI assumes no responsibility to update such forward looking statements.

In particular, investors should note that Italian monetary policy is no longer set by the Bank of Italy nor influenced by other domestic institutions or political parties. Instead, the ECB is responsible for ensuring the price stability within the Member States of the Euro zone. The ECB manages interest rates in line with this policy and it has declared that it will not be deflected by consideration of other economic variables such as the rate of unemployment in adhering member countries or external exchange rate targets. The ECB makes its policy on the basis of information gathered from all Member States and it may be that such a policy does not necessarily suit each one of the individual members.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

INTRODUCTION

At December 31, 1999 Sanpaolo IMI Group was one of the leading banking groups in Italy by total assets (Euro 139,887 million), loans to customers (Euro 73,174 million), customers' financial assets (Euro 260,026 million) of which 30.4% represented by direct customers deposits (Euro 78,957 million), 42.5% by asset management (Euro 110,472 million) and 27.1% by assets in administration (Euro 70,597 million). At the same date, the Group had 1,355 retail branches in Italy, together with 64 branches (of which 52 retail branches in France through the subsidiary Banque Sanpaolo) and 12 representative offices abroad.

Sanpaolo IMI Group is a full service banking group which provides a broad range of credit and financial products and services to its customers in Italy and abroad. The Group's business is composed of banking, asset management and capital markets activities as well as certain other banking-related services. The Group's principal banking operations are retail banking, corporate banking (including advisory and project finance), investment banking, merchant banking, asset management (including private banking services and insurance), mortgage banking and medium-and long-term lending. In addition, the Group has an active treasury and trading operation and operates as a specialist in the Italian government bond market, a leading underwriter and a trader in the domestic equity market and lead manager in Eurolira bond issues and warrants.

In 1999 the Group completed the process of integration and rationalization that followed the merger of Sanpaolo and IMI which took place in 1998. The strategy lines developed in 1998 and applied in 1999 envisaged:

- the development of commission income through the strengthening of the Group's presence in the retail sector, especially in the field of asset management;
- a reduction in normal operating costs;
- an improvement in asset quality and the containment of financial risks;
- the definition and launch of projects for future growth.

The steps taken to boost income were designed to develop customer services, so as to offset the structural decline in margins available from traditional money management. Efforts were aimed in particular at the asset management sector to consolidate the substantial market share held by Sanpaolo IMI. The action taken was geared to both products and the distribution network. This improved the Group's market shares in segments with higher value-added for customers and for the Bank, guaranteeing a rising flow of commissions.

Another important priority was cost containment: new rationalization projects were undertaken, which allow to offset the investments made in faster growing areas, especially in asset management and new distribution channels.

Considerable attention was paid to the management of lending and market risks: activities with inadequate returns compared with the level of risk taken on were cut back; the credit selection process was carefully monitored, helped by new customer classification procedures; and stronger steps were taken to recover non-performing loans.

Development initiatives concerned, above all, business areas with greater growth potential:

- the Commercial Banking area, which deals with house-holds and small to medium-sized enterprises through the branch network, defined new ranges of products and services for the retail segment; it also introduced a new professional role – the customer portfolio manager; it revised the process by which loans are disbursed and monitored and launched initiatives in the field of private banking;
- in the field of Personal Financial Services, Banca Fideuram has reinforced its leadership position through new products and services, a higher number of financial consultants and the launch of a geographical diversification plan. Sanpaolo Invest has obtained banking license;
- the Investment Banking area has not only completed concentration of all of the Group's capital market activities in Banca IMI, but has also launched a trading on line service through @IMIWEB and has it also reached an agreement with Tiscali, one of Italy's main ISPs. See "Recent Developments".

Important initiatives also concerned:

- the Public Entities and Infrastructures area, which is setting up as an indipendent company ("Banca OPI");
- the Large Corporate area, which deals with large Italian and foreign companies, redefined its lending procedures, using a system of internal ratings and adopting a new system of correct pricing based on the risk and capital absorbed;
- the Merchant Banking area, which, with the agreement of Compagnia di San Paolo, saw the creation of NHS–Nuova Holding Subalpina, to which Sanpaolo IMI transferred its merchant banking activities. See "Merchant Banking".
- the spin-off of a sizeable proportion of the Group's real estate interests to Beni Stabili. See "Other Significant Developments";
- the organization of a sale without recourse of non-performing loans, mainly property loans. See "Recent Developments".

In addition to this internal growth, steps have also been taken to expand the Group by means of acquisitions and alliances (such as Banco di Napoli and Cassa di Risparmio di Firenze), given the favorable economic conditions. See "Recent Developments – Banco di Napoli transaction – Cassa di Risparmio di Firenze".

The Group is planning considerable investments over the next three years, geared to internal and external expansion in areas of greater profitability and growth potential. First of all, it is planning steps to develop innovative distribution channels: the Commercial Banking area has launched a project that envisages the transformation of the branch technology environment to create a distribution system that allows customers to operate with the Bank in an integrated fashion through branches, Internet, telephone banking, remote banking, ATM cash dispensers and POS terminals. Banca Fideuram and Sanpaolo Invest are planning to use the Internet and telephone banking as support tools for their financial consultants. A new subsidiary dedicated to internet trading was created at the end of 1999 under the brand name of @IMIWEB. This subsidiary will apply for a banking license, will be listed and will turn into a global provider of financial services by offering all kinds of banking and insurance products, including those not developed by the Group. A total of Euro 250 million is expected to be invested in these various Internet initiatives, with a target of more than 500,000 network customers by 2002.

The Group is also planning to reinforce the distribution network located throughout the territory. See "1999 results by business area - Commercial Banking – Personal Financial services-".

Lastly, Sanpaolo IMI is investing in a series of important European banks with a view to enlarging the range of its strategic options in the event of future transnational alliances. In particular, its stake in Banco Santander Central Hispano was raised from 2% at the end of 1999 to 2.8% in early 2000. See Item 9 "Management Discussion and Analysis – Investments in foreign banks".

Internal and external expansion will be achieved without any recourse to increases in capital. Instead, it will be financed by issuing preferred shares and subordinated loans, and by freeing up capital that is currently invested in non-strategic minority interests.

Recent Developments

Banco di Napoli transaction

On June 13, 2000 Sanpaolo IMI's Board of Directors has approved an agreement reached with Banca Nazionale del Lavoro S.p.A. ("BNL") and the spin-off project of Istituto Nazionale delle Assicurazioni S.p.A. ("INA"), according to which Sanpaolo IMI will acquire respectively 49% and 51% interest in Banco di Napoli Holding S.p.A. ("BN Holding"), whose principal asset is the 56.1% of the ordinary capital and approximately 52.5% of the total capital in Banco Napoli S.p.A. ("Banco di Napoli"). As a result, Sanpaolo IMI will take indirect control of Banco di Napoli. See Item 9. "Management Discussion and Analysis – The INA – Banco di Napoli operation".

The agreement reached with BNL provides for the acquisition, by Sanpaolo IMI, of the ordinary shares, equal to 49%, of the capital of BN Holding held by BNL, as well as BNL's renunciation to its pre-emptive rights on the remaining 51% interest in BN Holding held by INA. The transfer of the 49% interest in BN Holding from BNL to Sanpaolo IMI will be effected at the price of approximately Lire 1,693 billion (Euro 874 million).

The project of spin-off of 51% of the capital of BN Holding from INA provides for the acquisition of 295,800,000 ordinary shares, at an estimated value of approximately Lire 1,829 billion (Euro 945 million). As a consideration for the acquisition, Sanpaolo IMI will cancel the INA shares in its portfolio, equal to approximately 9.2% of INA's share capital and will further assign INA's minority shareholders 15.34 Sanpaolo IMI own Shares for every 1,000 INA shares held by them, for a total of 3.6 million Sanpaolo IMI own Shares; concurrently, 99.23 INA shares for every 1,000 shares held by minority shareholders will be cancelled, so that at the end of the transaction the holding of minority shareholders in INA will remain unchanged. Assicurazioni Generali S.p.A. ("Generali"), the majority shareholder of INA, will not receive any Sanpaolo IMI Shares and its INA shares will not be cancelled. To complete the transaction, Generali will pay Sanpaolo IMI a cash adjustment of approximately Lire 30 billion (Euro 15 million). The transaction relating to the spin-off project of INA will be proposed for approval to the Sanpaolo IMI shareholders at the Extraordinary General Meeting on July 26, 27, 28, 2000.

As required by CONSOB, Sanpaolo IMI will also launch an offer to purchase the remaining ordinary capital of Banco di Napoli held by other shareholders. The offer price has been set at Euro 1.533 for each ordinary share of Banco di Napoli. In the case of total acceptance of the shareholders, the offer will cost to Sanpaolo IMI approximately Lire 2,430 billion (Euro 1,255 million). The offer is subject to the completion of the spin-off of 51% of BN Holding from INA; it is expected that the effective launch of the offer could take place in the fourth quarter of 2000.

Cassa di Risparmio di Firenze

On February 28, 2000, Sanpaolo IMI and Ente Cassa di Risparmio di Firenze ("Ente Firenze") entered into an agreement to ratify an alliance whereby Sanpaolo IMI would acquire a 15% interest in the bank Cassa di Risparmio di Firenze S.p.A., bringing the Group's total holding, together with the 4.1% interest already held by NHS, to 19.1%. Ente Firenze, the majority shareholder of the bank Cassa di Risparmio di Firenze S.p.A., would acquire a 2% shareholding in Sanpaolo IMI. Both transactions were concluded on March 14, 2000. See Item 9 "Management's Discussion and Analysis – Cassa di Risparmio di Firenze".

@IMIWEB

On September 16, 1999, Sanpaolo IMI announced the imminent start of on-line trading services through its subsidiary @IMIWeb S.p.A. ("@IMIWeb"); such services were made available and marketed from November 1999.

On February 1, 2000, @IMIWeb, reached an agreement with Nokia, the manufacturer of mobile telephony equipment, and Wind, a fixed and mobile telecommunication services provider, and announced to make the financial services provided by @IMIWeb available through the new Wireless Application Protocol technology ("WAP").

On March 15, 2000, Sanpaolo IMI concluded an agreement with Tiscali, an internet service provider, to develop a wide spectrum portal. As part of the agreement, it is envisaged that Tiscali will acquire a 15%. stake in @IMIWeb and have an option of an additional stake of between 5% and 25 %.

Other recent developments

On June 10, 1999, Sanpaolo IMI announced the sale of a 20% stake in Crediop to Dexia Group for Euro 218 million, with a net capital gain of Euro 59 million. On April 27, 2000, the sale of the remaining 40% to Dexia Group was completed for Euro 418 million, with a net capital gain of more than Euro 100 million.

On February 8, 2000, Sanpaolo IMI announced that it would proceed with the establishment of Banca OPI. See "Public Entities and Infrastructures".

On March 23, 2000, Sanpaolo IMI reached an agreement with Goldman Sachs and Morgan Stanley Dean Witter for the sale without recourse of certain non-performing loans, for a total of more than Euro 1,600 million of nominal value, at a price in excess of net book value. The loans sold include individual customer loans and real estate construction loans. Following this transaction, the ratio of net non-performing loans to net loans was reduced from 2.3% to 1.3%.

Partial spin-off by Sanpaolo IMI to Beni Stabili S.p.A.

Following a strategic analysis of its business, Sanpaolo IMI determined to focus primarily on its core banking and financial services activities. In order to achieve this result, Sanpaolo IMI decided to spin-off most of its real estate assets. Following this decision and a review of Sanpaolo IMI's real estate portfolio, the Board of Directors of Sanpaolo IMI approved a plan which included the transfer to Beni Stabili S.p.A.

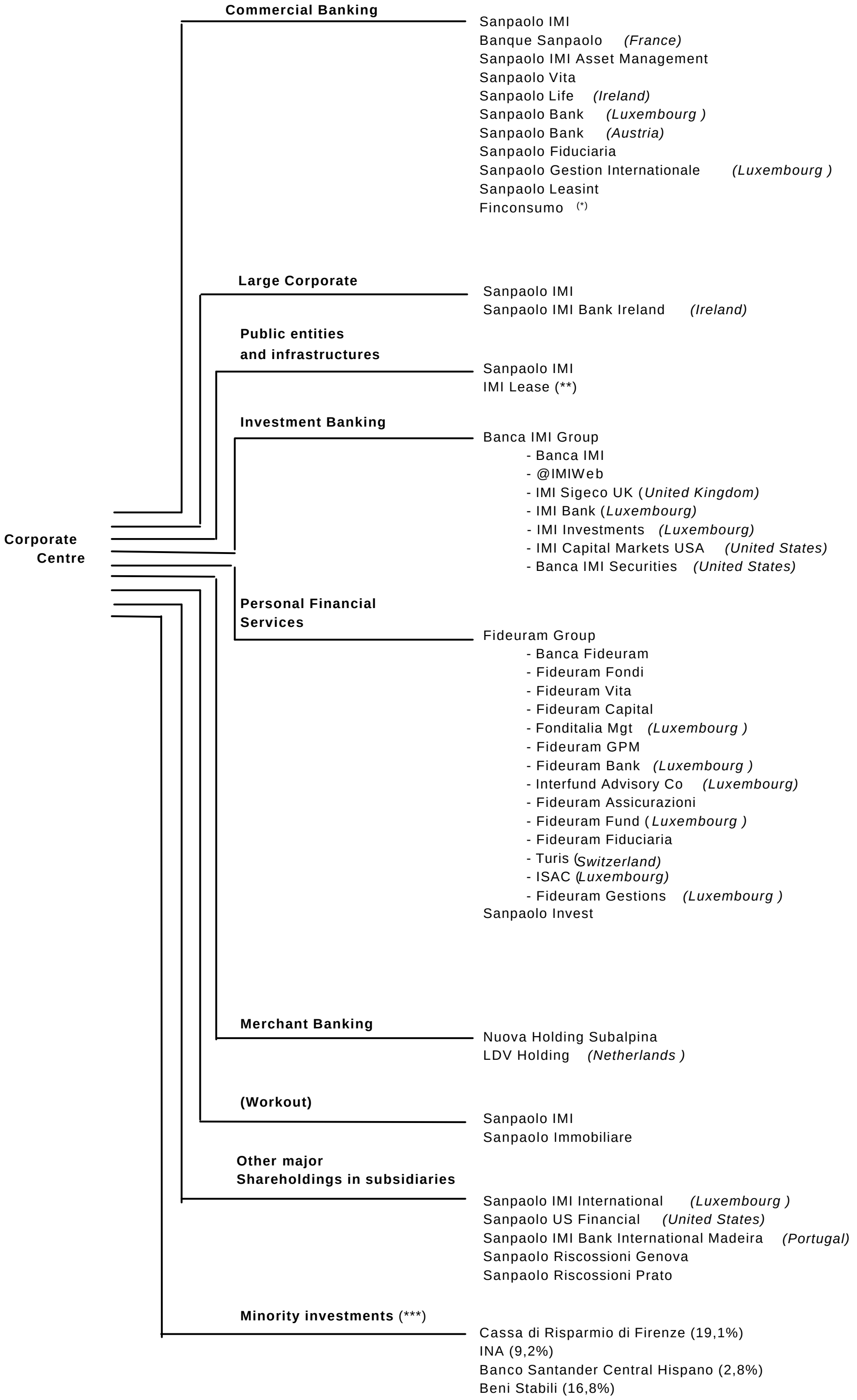
("Beni Stabili") of Sanpaolo IMI's real estate assets as well as other assets and liabilities comprising, equity investments held by Sanpaolo IMI in certain real estate management companies, certain liquid funds, assets and liabilities for prepaid taxes relating to the assets transferred, guarantee deposits paid in cash and all the legal rights and obligations relating to the assets relating to (the "Spin-off"). The value of the assets which made part of the Spin-off was Euro 700 million. The Spin-off was approved by the shareholders of Sanpaolo IMI and Beni Stabili at their extraordinary shareholders' meetings held on July 28 and July 29, 1999, respectively and became effective on October 31, 1999. On November 2, 1999 the Beni Stabili shares were distributed to Sanpaolo IMI and Sanpaolo IMI shareholders and started trading on Telematico.

As a result of the Spin-off, the Bank kept a 16% interest in Beni Stabili, while the remaining 84% was allocated directly to the shareholders of Sanpaolo IMI. The share capital of Sanpaolo IMI was reduced from Euro 4,345 million to Euro 3,932 million.

By December 31, 1999 Sanpaolo IMI's interest in Beni Stabili had increased to 18%, by buying shares on the market. In March 2000, the interest in Beni Stabili was reduced to 16.8%.

BUSINESS AND GEOGRAPHICAL SEGMENTS

The following diagram sets forth the structure of the Sanpaolo IMI Group as of December 31, 1999:



(*) Company controlled jointly with Banco Santander Central Hispano S.A..
(**) The conferral to IMI Lease of the Sanpaolo IMI's Public Entities and Infrastructures area is being discussed.
(***) As of March 28, 2000.

Organization by business area

The Group has been organized into autonomous business areas, supported and directed by a corporate center (the "Corporate Center"). The new structure, adopted at the end of 1998 on completion of the merger between Sanpaolo and IMI, has been designed to:

- respond effectively to the changing competitive scenario;
- clearly identify the profitability and risk exposure of each business;
- establish the adequacy of total Group capital and its appropriate allocation to the business areas; and
- make managers strictly accountable for results.

The following business areas have been identified, the activities of which are carried out by the Bank and/or its subsidiaries:

- Commercial Banking
- Large Corporate
- Public Entities and Infrastructures
- Personal Financial Services
- Investment Banking
- Merchant Banking
- Corporate Center (including treasury operations, loan recovery and the management of equity investments)

The profitability of each area has been determined in terms of Return on Risk Adjusted Capital ("RoRAC"), i.e. the ratio between income generated by the area and its average economic capital during the period. The latter is quantified with reference to the specific degree of risk using Value at Risk ("VaR") statistical criteria.

In order to evaluate the profitability of each area, the accounting information deriving from the Bank's activities in that area is consolidated with that deriving from the activities of the subsidiaries concerned. Within the Bank, results are allocated to individual business areas on the following basis:

- net interest income is calculated using appropriate internal transfer rates;
- in addition to actual commissions, notional commissions are also quantified for the services rendered by one area to another; and
- the direct costs of each area are determined and parameters are used to apportion the cost of central services except for specific holding company functions.

Economic capital is allocated to each business area according to the following criteria:

- in those sectors where business is conducted both by the Bank and by subsidiaries, the average economic capital absorbed by the two is consolidated; the economic capital is calculated according to VaR by type of risk: credit risk, market risk and operational risk;
- in those sectors where business is conducted exclusively by subsidiaries, reference is made to accounting net capital.

The difference between the accounting net capital of the Group and the capital absorbed by the sectors is posted to the Corporate Center.

Particularly prudent criteria were adopted for allocating the Bank's capital to the various business areas. Among these:

- the exposure of each area to lending and financial risk was calculated at a 99.95% confidence level, consistent with the Group's rating;

- these risks were covered using Tier I capital.

The results posted by the various business areas in 1999 are not comparable with the figures shown in the 1998 and interim 1999 financial statements. This is because the Group was organized into business areas at the end of 1998, after completion of the merger between Sanpaolo and IMI, and it was only during the course of 1999 that different areas, transfer prices and the method of calculating capital absorbed were defined.

1999 results by business area

The results of the Group’s business areas in 1999 are summarized in the following table:

Business area	**Net income (Euro/mn)**	**Average economic capital (Euro/mn)**	**Annualized RORAC (%)**
Commercial Banking	468	2,607	18.0
Large Corporate	59	706	8.4
Public Entities and Infrastructure	41	205	20.1
Personal Financial Services	150	542	27.6
Investment Banking	76	362	20.9
Merchant Banking	36	374	9.6
Corporate Center	220	2,710	n.s.
Sanpaolo IMI Group	1,050	7,506	14.0

The Corporate Center is responsible for treasury operations, loan recovery and the management of equity investments. Income for the period consists mainly of extraordinary income from equity investments, totalling about Euro 308 million before taxes.

Commercial Banking

	1999
Statement of income (Euro/mn)	
Operating income	**1,180**
Net income	**468**

AVERAGE ECONOMIC CAPITAL (Euro/mn)	**2,607**

RORAC (%)	**18.0**

	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	**38,264**
Funding from customers	**164,662**
- Direct funding	**35,072**
- Indirect funding	**129,590**
- Asset administration	**62,125**
- Asset management	**67,465**
- Mutual funds	**46,174**
- Fund-based portfolio management	**10,330**
- Portfolio management	**5,843**
- Life assurance policies	**5,118**

The Commercial Banking area does business with households, small businesses and small and medium enterprises, offering payment services, financing and asset management products.

The area operates in Italy through the Bank's 1,292 branches and abroad through Banque Sanpaolo's 52 branches in Paris, Lyon and the Côte D'Azur, and a 32.5% interest in Inter-Europa Bank, Hungary. Operations are supported by specialized Group companies, mostly active in asset management (Sanpaolo IMI Asset Management, Sanpaolo Vita, Sanpaolo Bank Lux, Sanpaolo Bank Austria, Sanpaolo Fiduciaria and Sanpaolo Gestion Internationale). The area also includes leasing (via Sanpaolo Leasint) and consumer credit (via Finconsumo, which is controlled jointly with Banco Santander Central Hispano).

During 1999 the Commercial Banking area reinforced the Group's competitive position offering banking services to households. In this context, the following organizational and commercial actions were taken:

- in the asset management field, the main steps consisted of the customer segmentation by types of financial asset, the assignment of individual portfolios to specialist operators, and the adoption of financial planning tools; a new model of financial manager was also developed; and new life products for the private sector were created;
- in the housing loan sector, innovative products were launched, especially various type of flexible mortgage loans, combining floating and fixed rate;
- a new range of bank accounts services were made available to customers, featuring greater flexibility and broader information.

Projects to improve loan quality were developed during the year. The entire lending process at the Bank was redesigned by issuing a new loan policy, introducing a new system for classifying loans and adopting a new form for loan applications and approvals; the new developments also include a new loan manager computerized workstation.

Other actions concerned:

- a project to develop operations in the private banking sector;
- an incentive plan for the employees, focusing on targets that include financial results, loan quality, asset management and customer development;
- completion of a project to rationalize the Bank's operating structures, which allowed to reduce about 1,000 employees in the two-year period 1998-1999.

Plans for growth on the domestic market to be implemented over the next three years, 2000-2002 were also defined, including:

- a project to create a multi-channel distribution system that will allow customers to operate with the bank in an integrate fashion through branches, Internet, call center, remote banking, ATMs and POS terminals;
- a plan to open more than 100 lightweight, household-oriented branches by the end of 2001.

Lastly, 1999 saw the concentration in Sanpaolo Fondi, renamed Sanpaolo Imi Asset Management SGR, of the Italian mutual fund and portfolio management businesses.

The Group's asset management activities in the Italian market, increased by 30%, totaling Euro 62,524 million at December 1999. Net loans came to Euro 34,971 million. Two significant figures are the increase in property loans to the retail sector, due to disbursements of Euro 1,750 million, and in personal loans, which represents an increase of 40% in 1999 compared to 1998.

On the French market, the policy of rapid commercial expansion in the retail field implemented by Banque Sanpaolo led to a substantial increase in asset management schemes, with an increase of 27%, and in retail mortgages, with an increase of 36% in 1999 compared to 1998.

Commercial Banking has in fact offset the expected decline in money-management margins caused by the drop in customer spreads with the flow of commissions coming from rising volumes of asset management and with the reduction in provisions and adjustments for bad loans; operating costs also decreased. Net income came to Euro 468 million, which represents more than half of total Group net income before extraordinary items; Commercial Banking's profitability was 18%.

The results of the individual companies of the Commercial Banking area were positive; in particular, Banque Sanpaolo realized net income of around Euro 45 million, which represents an increase of 11% in 1999 compared to 1998.

Large Corporate

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	**131**
Net income	**59**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**706**
RORAC (%)	**8.4**
	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	**20,688**

The Large Corporate area provides loans and other banking services to big companies. In Italy, it handles the Bank's operations on behalf of groups with sales of more than Lire 1,000 billion, equal to approximately Euro 500 million, through a number of central units plus six area offices. Foreign operations are conducted via the Bank's 11 branches and 11 representative offices abroad, as well as through Sanpaolo Bank Ireland.

In 1999, the Large Corporate area's operations on the Italian market were carried out in a scenario of declining net interest income due to the financial markets' trend. In addition, there was a rising competition from foreign institutions, combined with a reduction of large groups' bank loans as part of their debt restructuring. Given this situation, the Large Corporate area limited the absorption of capital and developed fee-based services. The Large Corporate area also refined its lending procedures, using internal ratings and adopting pricing systems that better reflect the degree of risk and capital employed.

On foreign markets the Large Corporate area reorganized its activities during the year, identifying three main branches, New York, London and Tokyo, to handle operations in the relevant markets. This was a preliminary step prior to the selective development of the corporate business envisaged for the next three years: acting as a local specialist in selected countries and sectors will allow to offer customers integrated products in corporate lending and investment banking.

In 1999, the Large Corporate area realized a net income of Euro 59 million with a profitability of 8.4%. Loans over the twelve month period were influenced by the different kind of customers: strong growth in foreign corporate business, while in Italy volumes were stable.

Public Entities and Infrastructures

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	**78**
Net income	**41**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**205**
RORAC (%)	**20.1**

	12/31/99
OPERATING FIGURES (Euro/mn)	
Net cash loans to customers	**10,728**

The Public Entities and Infrastructure area provides financial services to public-sector organizations (notably, the financing of capital projects and major infrastructure schemes). In addition to the lending activity, the Group also provides specialized services, such as help in structured finance operations or advice in the transformation of municipal utilities or public agencies into limited companies.

Since Crediop is no longer under Group control, operations are conducted by a central department of the Bank, which deals directly with major customers. Relations with smaller customers are coordinated via the domestic branch network of the Commercial Banking area.

The area has worked during the year to strengthen its leadership of the public-works financing sector, in which the Group has a 16% market share. Demand increased steadily during 1999, as did competition in Italy and from abroad. Lending volumes, including business abroad, saw disbursements of Euro 3,000 million (of which Euro 350 million of endorsement credits), mostly represented by loans to be repaid by the Italian government.

Consistent with budget guidelines, the area has sought to expand operations by exploiting synergies with the Commercial Banking branch network. Against the decline in margins multi-product packages including consulting services and assistance with the issue of securities were also offered. This area also acts as global advisor for the transformation into limited companies of municipal utilities and public agencies.

The Group embarked on a project to spin off this area into a dedicated company, identified in IMI Lease, with a view to maximizing its flexibility.

Net income for the year was Euro 41 million, with a return of 20.1%. There was a sharp rise in loans in the latter part of the year, mainly due to lending to local public entities.

Personal Financial Services

	1999
STATEMENT OF INCOME (Euro/mn)	
Operating income	**225**
Net income	**150**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**542**
RORAC (%)	**27.6**

	12/31/99
OPERATING FIGURES (Euro/mn)	
Funding from customers	**54,493**
- Direct funding	**3,014**
- Indirect funding	**51,479**
- Asset administration	**8,472**
- Asset management	**43,007**
- Mutual funds	**29,844**
- Fund-based portfolio management	**7,506**
- Portfolio management	**274**
- Life assurance policies	**5,383**

Banca Fideuram and Sanpaolo Invest, which constitute the Personal Financial Services area, distribute financial services through their networks of financial consultants. The market mainly consists of personal customers and small business owners with a medium-to-high savings potential.

Banca Fideuram and Sanpaolo Invest, with 3,509 and 1,356 consultants respectively, constitute Italy's largest network of financial consultant. Banca Fideuram operates through a number of specialized asset-management companies (Fideuram Fondi, Fideuram Vita, Fideuram Capital, Fideuram Gestions, Fonditalia, Fideuram Bank Lux, Fideuram Fiduciaria, Fideuram GPM, Interfund Advisory, ISAC, Fideuram Assicurazioni, Fideuram Fund and Turis). Sanpaolo Invest currently works with the product companies of the Commercial Banking area.

During the year, the area worked to strengthen its leadership in the Italian market, in a sector that offers considerable potential for creating shareholder value.

In particular, Banca Fideuram implemented the following projects:

- development of the distribution network, with 341 new consultants;
- consolidation of the product range by introducing the Fondo Pensione Fideuram, Fideuram Fund (a Luxembourg-based multisector fund), and Fideuram Unit Linked, an insurance product;
- completion of the Personal Financial Planning system and development of new planning models;
- a stock option plan;

- expansion in the private banking sector with the setting up of Fideuram Bank Lux in Luxembourg and two new representative offices in Switzerland; and a development of the Internet as a network support tool.

Sanpaolo Invest revised its business mission as follows:

- the transformation into a bank structure, with an organization independent from Sanpaolo IMI;
- the creation of a range of asset management, hedging and other products dedicated to the network (including the incorporation of Sanpaolo Invest Ireland Ltd.);
- the provision of on-line services to customers;
- upgrading of central information services and those used by the financial consultants;
- expansion of the network of financial planners and their retention, via a profit-sharing scheme.

Together, Banca Fideuram and Sanpaolo Invest realized a net income of Euro 150 million and a profitability of 27.6%. The increase in net income compared to 1998 was only 4.2% because of the considerable investments that had to be made during the period; the benefits of such investment will be realized from year 2000 onwards. Banca Fideuram realized a net income of Euro 158 million, contributing Euro 129 million to the Group result (as Sanpaolo IMI controls the 74%). Sanpaolo Invest realized net income of Euro 21 million.

The Personal Financial Services area achieved a 41% increase in customer funds under management during the year, which now equal to Euro 43,007 million. Mutual funds increased by 33%, portfolio management schemes by 134% and insurance products by 15%. By the end of the year, equity funds had risen to 53% of the total mutual funds.

Investment Banking

	1999
Statement of income (Euro/mn)	
Operating income	**122**
Net income	**76**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**362**
RORAC (%)	**20.9**
	12/31/99
OPERATING FIGURES (Euro/mn)	
Dealing volumes Banca IMI S.p.A.	**1,670,840**
- trading	**550,013**
- sales	**35,840**
- repurchase agreements	**1,068,123**
- placements	**16,864**

The Investment Banking area trades on its own and third party account. It also raises equity and debt capital for corporate customers, and advises on corporate finance matters. These activities are conducted by Banca d'Intermediazione Mobiliare ("Banca IMI") and its subsidiaries.

During the period, the area was reorganized as a result of the merger between Sanpaolo and IMI, and now all of the Group's investment banking activities are handled by Banca IMI. In particular:

- the London branch of Banca IMI opened, having taken over the IMI Sigeco (UK) and the branch of the Bank's brokerage business in London;
- Banca IMI Securities Corp., previously Mabon Securities Corp., a subsidiary of Banca IMI, took over the investment banking activities formerly carried out by the Bank branch in New York;
- Banca IMI took over Intersim's brokerage business on the Italian market.

During the year, Banca IMI reinforced its position in the financial brokerage market both in Italy and abroad. Banca IMI also increased its role as advisor in mergers and acquisitions and consolidated its leadership on the bond and equity placements domestic market. Towards the end of the year, Banca IMI launched IMIWEBTRADER, an on-line trading service, through the subsidiary @IMIWEB (formerly Intersim).

The net income made by Banca IMI and its subsidiaries in 1999 was Euro 76 million, with profitability of 20.9%.

Merchant Banking

	1999
Statement of income (Euro/mn)	
Operating income	**81**
Net income	**36**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**374**
RORAC (%)	**9.6**
	12/31/99
OPERATING FIGURES (Euro/mn)	
Merchant banking investments	**125**
Other equity investments	**307**

The Merchant Banking area acquires and grooms minority interests to generate capital gains on their subsequent divestment. During the first nine months the business was carried out by the Merchant Banking staff of the Bank, and for the rest of the year by NHS. In both cases, the business was coordinated by LDV Holding, a Dutch subsidiary. Net income for the year was Euro 36 million, mainly due to the capital gains of Euro 29 million realized with the sale of merchant banking investments, and trading profits of Euro 33 million. The return was 9.6%, without taking into account unrealized capital gains on the equity investment portfolio.

Significant merchant banking investments were made during the year, with an outlay of Euro 89 million. The most significant are: a minority interest in Azimut, a shipbuilding company (Euro 31 million); a minority interest in UTET, the holding company of the UTET publishing group (Euro 19 million); 26.7% of Nuova Strategia (Euro 13 million) which launched a successful takeover bid for Deroma Holding, a company based in the north of Italy, leader in the production of terracotta vases. In early 2000, another investment for Euro 21 million was made in the Camuzzi Group, which operates in the fields of energy production and distribution, urban waste disposal and the entire water cycle.

Significant investments were also made in listed companies for a total of Euro 86 million, buying shares in Tecnost (Euro 50 million), ENEL (Euro 20 million) and SNIA (Euro 16 million).

In September, the Merchant Banking business was reinforced with a strategic partnership with Compagnia di San Paolo. As a consequence, Sanpaolo IMI and Compagnia di San Paolo injected their Merchant Banking businesses into NHS in which Sanpaolo IMI controls a 51% interest. NHS has more than Euro 750 million of available funds. These considerable financial resources, an important capacity for origination, and the complementary nature of its activities and the products and services offered by the Group will allow it to lead the Italian private equity market and a primary role in public utilities. This initiative will be accompanied by the formation in early 2000 of a foreign closed-end fund of Euro 120 million with NHS acting as sponsor. The fund will invest in medium-sized manufacturing companies.

Corporate Center

	1999
Statement of income (Euro/mn)	
Operating income	**168**
Net income	**220**
AVERAGE ECONOMIC CAPITAL (Euro/mn)	**2,710**

	12/31/99
OPERATING FIGURES (Euro/mn)	
Investments in companies not consolidated on a line-by-line basis	**2,165**

The Corporate Center exercises the usual holding company services (strategic direction, supervision, administration and investor relations) including supporting services to the Bank (systems and organization, back-office management, logistics, purchasing and management of real estate assets). The Corporate Center also carries out treasury operations, collects non-performing loans and manages minority equity investments.

Most of the Corporate Center’s net income for the period came from extraordinary gains on equity investments (about Euro 308 million before taxes), following the sale of interests in Crediop (20%) and Telecom Italia.

Treasury

The Bank's treasury activities have been managed maintaining a low risk profile. Special attention has been taken in the management of fixed-rate positions, given the gradual rise in long-term interest rates throughout the period.

The Sanpaolo IMI treasury department in Italy took over the handling of interbank relationships in the Euro zone currencies. Greater use was made of European banks than in the past, and of Group funding vehicles operating in international markets.

Loan Recovery (Workout)

The Loan Recovery activity is focused on maximizing recoveries and reducing the level of the non-performing loans recorded by the Bank and Sanpaolo Immobiliare. Such activity is carried out by a staff of more than 200 people located throughout Italy.

Non-performing loans totaling Euro 560 million were recovered during the year, with gains of Euro 125 million, which represents the difference between collections and the written-down value of the related loans. Including writedowns, net non-performing loans at the start of the year decreased by 36.9% to Euro 1,201 million. New positions amount to Euro 401 million, a decrease of 30.7% compared to 1998. The year-end balance amounted to Euro 1,602 million, with a reduction of 15.8% compared to 1998.

On March 23, 2000, Sanpaolo IMI reached an agreement with Goldman Sachs and Morgan Stanley Dean Witter for the sale without recourse of almost 40,000 positions of non-performing loans, for a total of more than Euro 1,600 million of nominal value, at a price in excess of net book value. The loans sold include individual customer loans and real estate construction loans. It will enable the Bank to reduce future legal costs and to assign part of its staff to recover other positions and to further improve credit control. As a result of this transaction, the proportion of non-performing loans to total loans fell from 2.3% to 1.3%.

Equity investment

The equity investments management, which was especially intensive during the period, has been discussed in a separate section of this report. See Item 9 “Management Discussion and Analysis”.

Real estate

In October 1999, the Group completed the Spin-off of a portfolio of real estate assets. See “Description of Business – Recent Developments”.

The operating structure

In 1999 the Group carried out selective reinforcement of its distribution network, laying the foundation for the growth planned for the next three years. The action taken was based on the following concepts:

- introduction of innovative distribution channels;
- consolidation of Banca Fideuram and Sanpaolo Invest’s networks of financial consultants;

- expansion of the branch network;
- specialization of existing branches by market segment.

The Group has also developed a plan to strengthen the network of domestic branches. The plan envisages the opening of more than 100 outlets in the period 2000-2001. Branches will be positioned on a selective basis, they will mostly be lightweight and they will be devoted to serving private customers.

Lastly, the process of specializing the Italian branches by market segment and raising their productivity continued.

As for the automated and electronic banking structures, the Bank recorded almost 64 million ATM transactions, an increase of 8% on the previous year. POS transactions increased by more than 20% in terms of value. Telephone banking contracts executed were more than 72,000, an increase of 37% since the start of the year. The market share in remote banking with companies was more than 9% in terms of payment instructions.

Distribution network

	1999	**1998**	**Change** 1999/1998 (%)
Banking branches and area offices	1,419	1,409	0.7
- Italian branches and area offices	*1,355*	*1,346*	*0.7*
- Bank	*1,292*	*1,289*	*0.2*
- Banca Fideuram	*63*	*57*	*10.5*
- Abroad	*64*	*63*	*1.6*
- Bank	*11*	*11*	-
- Banque Sanpaolo	*52*	*52*	-
- Banca Imi	*1*	-	*n/a*
Representative offices	12	12	-
Financial advisor	4,865	4,497	8.2
- Banca Fideuram	*3,509*	*3,168*	*10.8*
- Sanpaolo Invest	*1,356*	*1,329*	*2.0*

SELECTED STATISTICAL INFORMATION

The financial information presented here refers to the accounts of Sanpaolo IMI Group for the years ended December 31, 1998 and 1999 as prepared under Italian accounting practice and to the accounts of Sanpaolo Group alone for the year ended December 31, 1997 (see "Presentation of Information"). For certain financial information of the Group for the years ended December 31, 1999 and 1998 compared to pro-forma amounts for years ended December 31, 1998, see Item 9. "Management's Discussion and Analysis of Financial Condition and Operations – 1999 Results of Operations".

Average Balances and Interest Rates

The following tables set forth average balances and interest rates for the Group for the year ended December 31, 1997, 1998 and 1999. For purposes of these tables, (i) average balances have been determined based on month-end figures for interest earning assets and interest bearing liabilities of Sanpaolo IMI, Banca Fideuram, IMI International, Banca IMI and IMI Bank (Lux) and at June 30 and December 31 balance for all other assets and liabilities of the Group; management believes that the average figures below present substantially the same trend as would be presented by daily averages; (ii) interest income derived from, and interest expenses associated with, transactions treated under Italian GAAP as hedging activities are reflected in the income and expense information; accordingly, interest income and expense in the following tables vary somewhat from the amounts presented in the Consolidated Financial Statements; (iii) tax exempt income has not been calculated on a tax-equivalent basis because the effect of such calculations would not be significant, and (iv) the monthly balance of non-accruing loans has been included in the monthly balance of loans and leases to non-credit institutions.

	Year ended December 31,								
	1997			1998			1999		
	Average balance	Interest (1)	Average rate	Average balance	Interest (1)	Average rate	Average balance	Interest (1)	Average rate
	(millions of Euro, except percentages)								
Assets:									
Interest earning assets									
Interest earning deposits and loans to credit institutions	23,175	1,228	5.30%	22,961	1,152	5.02%	18,174	635	3.49%
- Euro (2)	11,469	792	6.91%	13,077	660	5.05%	14,502	502	3.46%
- Non-Euro	11,706	436	3.72%	9,884	492	4.98%	3,672	133	3.62%
Reverse repurchase agreements	9,399	595	6.33%	15,210	763	5.02%	8,150	288	3.53%
- Euro	7,655	532	6.95%	12,343	659	5.34%	5,996	218	3.64%
- Non-Euro	1,744	63	3.61%	2,867	104	3.63%	2,154	70	3.25%
Trading account securities and investment	21,559	1,476	6.85%	26,944	1,526	5.66%	17,980	913	5.08%
- Euro	15,424	1,127	7.31%	19,800	1,177	5.94%	14,658	731	4.99%
- Non-Euro	6,135	349	5.69%	7,144	349	4.89%	3,322	182	5.48%
Loans and leases to non-credit institutions	63,537	5,417	8.53%	83,877	6,531	7.79%	69,115	4,195	6.07%
- Euro	51,033	4,840	9.48%	70,800	5,850	8.26%	62,633	3,882	6.20%
- Non-Euro	12,504	577	4.61%	13,077	681	5.21%	6,482	313	4.83%
Total interest earning assets	117,670	8,716	7.41%	148,992	9,972	6.69%	113,419	6,031	5.32%
- Euro	85,581	7,291	8.52%	116,020	8,346	7.19%	97,789	5,333	5.45%
- Non-Euro	32,089	1,425		32,972	1,626	4.93%	15,630	698	4.47%
Non-interest earning assets	17,220			22,293			21,684		
Total assets	134,890			171,285			135,103		

(1) Interest income varies slightly from income as shown on the Consolidated Financial Statements due to differences in accounting for swaps entered into for asset/liability management purposes.
(2) For the years 1997 and 1998 the split Euro-Non Euro means Lire-Non Lire.

	Year ended December 31,								
	1997			1998			1999		
	Average balance	**Interest (1)**	**Average rate**	**Average balance**	**Interest (1)**	**Average rate**	**Average balance**	**Interest (1)**	**Average rate**
	(millions of Euro, except percentages)								
Liabilities and Shareholders' Equity:									
Interest bearing liabilities									
Deposits, short-term borrowings and medium- and long-term debt from credit institution	23,861	1,272	5.33%	32,174	1,762	5.48%	20,966	917	4.37%
- Euro (2)	6,155	471	7.65%	16,958	977	5.76%	14,663	662	4.51%
- Non-Euro	17,706	801	4.52%	15,216	785	5.16%	6,303	255	4.05%
Short-term borrowings and medium- and long-term debt from non-credit institutions	44,181	2,260	5.12%	46,220	1,787	3.87%	37,273	622	1.67%
- Euro	35,504	1,914	5.39%	35,471	1,263	3.56%	36,137	577	1.60%
- Non-Euro	8,677	346	3.99%	10,749	524	4.87%	1,136	45	3.96%
Repurchase agreements	13,500	832	6.16%	19,071	897	4.70%	12,419	406	3.27%
- Euro	11,095	722	6.51%	16,437	784	4.77%	10,515	339	3.22%
- Non-Euro	2,405	110	4.57%	2,634	113	4.29%	1,904	67	3.52%
Securities and subordinated liabilities	28,816	2,220	7.70%	43,917	2,874	6.54%	38,291	2,039	5.33%
- Euro	24,995	1,984	7.94%	36,270	2,483	6.85%	32,151	1,725	5.37%
- Non-Euro	3,821	236	6.18%	7,647	391	5.11%	6,140	314	5.11%
Total interest bearing liabilities	110,358	6,584	5.97%	141,382	7,320	5.18%	108,949	3,984	3.66%
- Euro	77,749	5,091	6.55%	105,136	5,507	5.24%	93,466	3,303	3.53%
- Non-Euro	32,609	1,493	4.58%	36,246	1,813	5.00%	15,483	681	4.40%
Non-interest earning liabilities:									
Other liabilities	19,217			20,897			17,767		
Minority interest in consolidated subsidiaries	238			451			368		
Total non-interest bearing liabilities..	19,455			21,348			18,135		
Shareholders' equity:									
Common shares	4,214			4,345			3,926		
Other shareholders' equity	863			4,210			4,093		
Total shareholders's equity	5,077			8,555			8,019		
Total liabilities and shareholders' equity	134,890			171,285			135,103		

(1) Interest income varies slightly from income as shown on the Consolidated Financial Statements due to differences in accounting for swaps entered into for asset/liability management purposes.
(2) For the years 1997 and 1998 the split Euro-Non Euro means Lire-Non Lire.

Change in Net Interest Income – Volume and Rate Analysis

The following table allocates, by category of interest earning assets and interest bearing liabilities and by currency, changes in the Group's net interest income among changes in average volumes, changes in average rates and changes due to effects of both rate and volume for 1998 compared to 1997 and 1999 compared to 1998.

	1997/1998				1998/1999			
	Incraese/(decrease) due to changes in				Incraese/(decrease) due to changes in			
	Volume	Rate	Volume /Rate	Net Change	Volume	Rate	Volume /Rate	Net Change
	(millions of Euro)							
Interest income:								
Interest earning deposits and loans to credit institutions:	(11)	(66)	1	(76)	(240)	(350)	73	(517)
- Euro (1)	111	(213)	(30)	(132)	72	(207)	(23)	(158)
- Non-Euro	(68)	146	(23)	55	(309)	(134)	84	(359)
Reverse repurchase agreements	368	(123)	(76)	169	(354)	(226)	105	(475)
- Euro	326	(123)	(76)	127	(339)	(210)	108	(441)
- Non-Euro	41	-	-	41	(26)	(11)	3	(34)
Trading account securities and investment	369	(255)	(64)	50	(508)	(158)	53	(613)
- Euro	320	(210)	(60)	50	(306)	(190)	50	(446)
- Non-Euro	57	(49)	(8)	-	(187)	42	(22)	(167)
Loans and leases to non-credit institutions	1,734	(470)	(150)	1,114	(1,150)	(1,441)	254	(2,337)
- Euro	1,875	(623)	(241)	1,011	(675)	(1,463)	169	(1,969)
- Non-Euro	26	74	3	103	(343)	(50)	25	(368)
Total interest income:	2,320	(841)	(224)	1,255	(2,381)	(2,050)	489	(3,942)
- Euro	2,593	(1,134)	(403)	1,056	(1,312)	(2,020)	318	(3,014)
- Non-Euro	39	157	4	200	(855)	(154)	81	(928)
Interest expense								
Deposits, short-term borrowings and medium- and long-term debt from credit institutions:	443	36	12	491	(614)	(355)	124	(845)
- Euro	827	(116)	(204)	507	(132)	(211)	28	(315)
- Non-Euro	(113)	113	(16)	(16)	(460)	(169)	99	(530)
Short-term borrowings and medium- and long-term debt from non-credit institutions	104	(552)	(25)	(473)	(346)	(1,016)	197	(1,165)
- Euro	(2)	(650)	1	(651)	24	(697)	(13)	(686)
- Non-Euro	83	77	18	178	(469)	(98)	88	(479)
Repurchase agreements	343	(197)	(81)	65	(313)	(274)	96	(491)
- Euro	348	(193)	(93)	62	(282)	(254)	91	(445)
- Non-Euro	10	(6)	(1)	3	(31)	(20)	5	(46)
Securities and subordinated liabilities	1,163	(334)	(175)	654	(539)	(559)	105	(993)
- Euro	895	(273)	(123)	499	(398)	(548)	88	(858)
- Non-Euro	236	(40)	(40)	156	(124)	(16)	5	(135)
Total interest expense:	1,851	(869)	(244)	738	(4,085)	1,695	(946)	(3,336)
- Euro	1,794	(1,019)	(359)	416	(611)	(1,792)	199	(2,204)
- Non-Euro	166	140	16	322	(1,614)	4,406	(3,924)	(1,132)

(1) For the years 1997 and 1998 the split Euro-Non Euro means Lire-Non Lire

Interest-Earning Assets: Margin and Spread

The following table shows the Group's gross yield, net interest margin and spread, including the effect of hedging, for 1997, 1998 and 1999.

	Year ended December 31,		
	1997	1998	1999
		(percent)	
Gross yield (1):	7.41	6.69	5.32
- Euro (2)	8.52	7.19	5.45
- Non-Euro	4.44	4.93	4.47
Net interest margin (3):	1.81	1.78	1.80
- Euro (2)	2.57	2.45	2.08
- Non-Euro	(0.21)	(0.57)	0.11
Spread (4):	1.44	1.51	1.66
- Euro (2)	1.97	1.96	1.92
- Non-Euro	(0.13)	(0.07)	0.07

(1) Gross yield is interest income as a percentage of average interest earning assets.
(2) For the years 1997 and 1998 the split Euro-Non Euro means Lire-Non Lire
(3) Net interest margin is net interest income as percentage of average interest-earning assets.
(4) Spread is the difference between gross yield and the average cost of interest-bearing liabilities.

Return on Equity and Assets

The following table presents certain selected financial ratios which have been derived from average balance sheet information and the Consolidated Financial Statements.

	Year ended December 31,		
	1997	1998	1999
		(percent)	
Net income as percentage of:			
Average total assets	0.06	0.53	0.78
Average shareholders' equity	1.71	10.63	13.09
Dividends as percentage of net income	53.52	71.70	68.97
Average shareholders' equity as a percentage of average total assets	3.76	4.99	5.94

Securities Portfolio

At December 31, 1999 the Group's securities were carried on the Group's consolidated balance sheet at a book value of Euro 18,380 million, representing 13 % of its total assets. The aggregate book and the aggregate market value of securities held by the Group issued by the Italian government and government agencies were Euro 9,390 million and Euro 9,412 million, respectively, at December 31, 1999. The Group does not otherwise hold securities issued or guaranteed by any one entity or obligor, other than Italian government, whose carrying value represents more than 10% of consolidated shareholders' equity.

For a discussion of how the Group values its securities, see Note 9 to the Consolidated Financial Statement. The following table shows the book value and the market value of the Group's securities by type and domicile of issuer at the dates indicated.

	Year ended December 31,					
	1997		1998		1999	
	Book value	Market value	Book value	Market value	Book value	Market value
	(millions of Euro)					
Domestic:						
Government	12,135	12,292	16,426	16,485	9,390	9,412
Corporate and other securities	2,126	2,148	3,089	3,112	2,593	2,593
Equity and other (1)	756	765	1,155	1,156	1,388	1,389
Total domestic	15,017	15,205	20,670	20,753	13,371	13,394
International:						
Government	2,023	2,031	1,600	1,591	1,140	1,110
Corporate and other securities	2,276	2,306	3,408	3,412	3,814	3,817
Equity and other	101	103	45	45	55	55
Total international	4,400	4,440	5,053	5,048	5,009	4,982
	19,417	19,645	25,723	25,801	18,380	18,376

(1) This line item does not include shares of Sanpaolo IMI owned by the Group at December 31, 1999 with a book value of Euro 357 million and a market value of Euro 391 million.

The following table shows the maturities and weighted average yield of the Group's securities by type and domicile of issuer, at December 31, 1999. Yield on tax-exempt obligations have not been calculated on a tax-equivalent basis because the effect of such a calculation would not be material.

	At December 31, 1999				
	Amount maturing within one year	**Amount maturing between one year and five years**	**Amount maturing between five years and ten years**	**Amount maturing after ten years**	**Total amount**
	(in millions of Euro, except percentages)				
Domestic:					
Government	3,203	5,236	582	369	9,390
Corporate and other securities	290	1,190	484	629	2,593
Equity and other	1,388	-	-	-	1,388
Total domestic	4,881	6,426	1,066	998	13,371
International:					
Government	102	393	424	221	1,140
Corporate and other securities	1,542	1,734	327	211	3,814
Equity and other	55	-	-	-	55
Total international	1,699	2,127	751	432	5,009
Total Securities	6,580	8,553	1,817	1,430	18,380
Total Securities (market value)	6,629	8,568	1,786	1,393	18,376
Weighted average yield (1)	4.58%	4.90%	5.82%	4.83%	4.89%

(1) Based on book value

Loan portfolio

The Group's loan portfolio includes securities purchased under agreements to resell and loans to other banks. Loans are shown on the balance sheet at their estimated realizable value, including past due interest that has not been collected, net of value adjustment and allowances. See "-Non-accrual of interest" in the present section and Note 9 ("Description of accounting policies") to the Consolidated Financial Statements. The assessment of estimated realizable value takes into consideration any guarantees received, market prices (where applicable), solvency of debtors, the debt-servicing problems faced by the countries in which the borrowers are resident and the general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally.

Estimated realizable value of problem loans (non-performing, problem and restructured and in course of restructuring and loans to companies under observation valued on a case-by-case basis) takes into consideration, for 1999 and 1998 figures, not only the likelihood of eventual recovery, but also the financial cost of discounting loans at risk to factor in their total or partial lack of income generation and late repayment. Application of discounting expected future cash flows related to loans has resulted in a reduction of Euro 463 million for 1998 and Euro 357 million for 1999 in the Group's problem loans.

When it has been determined that a loan is impaired, the Group makes either a value adjustment to the loan, which is charged directly to income, or a provision, which is charged to income through the allowance for possible loan losses. See "-Allowance for Possible Loan Losses and Adjustments to Loans".

In this Selected Statistical Information section of the Annual Report, the term “net loans” refers to the amount of loans shown on the face of the balance sheet and is net of any value adjustments (losses charged directly to income) and is also net of any allowance for possible loan losses. “Total loans”, which do not appear on the face of the balance sheet, but which are set forth under “Total loans by customer” and “Total loans to banks” in Note 11 to the Consolidated Financial Statements, refers to loans net of any value adjustments, but before deduction of the allowance for possible loan losses.

At December 31, 1999, Group’s net loans equaled Euro 95,318 million (68% of total assets). The allowance for loan losses amounted to Euro 3,458 million (3.5 % of total loans). Total domestic loans equaled Euro 74,247 million (75.16 % of all total loans) while total international loans equaled Euro 24,529 million. At December 31, 1999, loans to customers other than banks aggregating Euro 33,938 million, equal to approximately 46.38% of Sanpaolo IMI Group's net loans, were secured. In addition to loans, at December 31, 1999 the Group had loan commitments (certain and not certain to be called) amounting to Euro 18,028 million and guarantees of Euro 11,045 million.

Loans by Location and Type of Borrower

The following table divides Group’s total loan portfolio into domestic and international loans broken down by loans to the public sector, banks and private sector customers.

Total Loans (1)	**At December 31,**				
	1995	**1996**	**1997**	**1998**	**1999**
			(millions of Euro)		
Domestic:					
Government and other public entities	12,126	12,720	14,470	21,377	9,487
Banks and credit institutions	11,839	12,575	11,911	10,038	10,264
Non-financial business	28,455	29,753	25,080	50,222	50,500
Other	21,515	17,356	18,761	8,236	3,996
Total domestic	73,935	72,404	70,222	89,873	74,247
International:					
Government	1,123	422	660	605	1,497
Banks and credit institutions	13,948	17,452	16,368	13,156	12,048
Other	9,402	10,460	11,455	9,818	10,984
Total international	24,473	28,334	28,483	23,579	24,529
Total domestic and international	98,408	100,738	98,705	113,452	98,776

(1) Total loans are loans net of any value adjustments but before deduction for the allowance for possible loan losses. Total loans do not appear on the face of the balance sheet but are set forth in Note 11 to the Consolidated Financial Statements under "Total loans to customers" and "Total loans to banks".

Loans by type of Facility

The Group's principal lending instruments are overdrafts on current accounts, repurchase agreements and medium-long-term loans. The following table sets forth the net loans of the Group at December 31, 1995, 1996, 1997, 1998 and 1999 by type of facility.

Net loans (1)	**At December31,**									
	1995		**1996**		**1997**		**1998**		**1999**	
	(in millions of Euro, except percentages)									
Mortgages and indusrial loans	32,143	33.46%	32,593	33.12%	31,767	33.02%	50,741	46.14%	37,110	38.93%
Current account overdrafts	11,679	12.16%	10,758	10.93%	10,431	10.84%	9,052	8.23%	9,681	10.16%
Repurchase agreements (2)	5,690	5.92%	8,383	8.52%	9,949	10.34%	12,979	11.80%	7,334	7.69%
Advances with recourse	2,247	2.34%	2,081	2.11%	2,093	2.18%	2,467	2.24%	2,201	2.31%
Import-export loans	2,161	2.25%	2,042	2.08%	2,872	2.98%	1,394	1.27%	1,579	1.66%
Finance leases	1,070	1.11%	1,261	1.28%	954	0.99%	1,341	1.22%	1,695	1.78%
Discounted notes	942	0.98%	1,059	1.08%	994	1.03%	1,212	1.10%	1,089	1.14%
Personal loans	430	0.45%	553	0.56%	448	0.47%	521	0.47%	969	1.02%
Factoring	334	0.35%	343	0.35%	178	0.19%	782	0.71%	721	0.76%
Subordinated loans (2)	86	0.09%	64	0.07%	60	0.06%	26	0.02%	71	0.07%
Other forms of finance	12,625	13.14%	10,595	10.77%	10,920	11.34%	12,386	11.27%	14,594	15.31%
Loans to banks	24,364	25.36%	26,514	26.94%	23,030	23.94%	15,069	13.70%	16,580	17.39%
Non-perfoming loans (2)	2,299	2.39%	2,157	2.19%	2,520	2.62%	2,012	1.83%	1,694	1.78%
Net loans	96,070	100.00	98,403	100.00	96,216	100.00	109,982	100.00	95,318	100.00

(1) Net loans are loans net of any value adjustments and also net of any allowance for possible loan losses. "Net loans" is the loan amount that appears on the face of the balance sheet.
(2) Include loans to banks.

Sanpaolo IMI Group provides credit services to a wide and diversified range of individual and corporate customers predominantly in the Italian domestic market. Sanpaolo IMI Group also grants medium- and long-term loans, both industrial and real estate mortgage loans, and has a leading position in the Italian market for these kind of loans. See ''Description of Business—Operations—Banking—Lending''.

Sanpaolo IMI Group's lending business is divided between (i) installment loans, which primarily consist of mortgages (including mortgage loans to public entities) and industrial loans and (ii) non-installment loans, including demand loans (principally current account overdrafts) and loans which are expected to be repaid with a single payment.

Mortgages and industrial loans.

– Mortgage loans include principally (i) residential mortgages to individuals on private residences, (ii) loans to cooperative institutions in the housing industry and (iii) commercial construction loans secured by the underlying real property. These loans are typically repaid through six-month installments, although Sanpaolo IMI has recently begun marketing loans repayable through monthly installments. Mortgage loans include loans to public entities, which historically have received full government support in Italy. Sanpaolo IMI does not believe that these loans present a significant credit risk.

  The process for recovering against collateral through the Italian legal system often consists of a series of judicial auctions which successively decreases the ultimate potential recovery and which currently last an average of five and one half years. As a result, Sanpaolo IMI has a policy to limit the value of each loan to 75% of the value of the premises, in the case of mortgages, up to 50% of the cost of construction at the time of loan origination, in the case of construction loans, and up to 75% of renovation costs at the time of loan origination, in the case of renovation loans. These limits are reduced if appropriate in light of credit analyses performed on each borrower. Sanpaolo IMI believes that the value of the collateral on its mortgage loans covers its exposure and takes a provision or adjustment whenever such coverage is no longer deemed to be sufficient.

Virtually all construction loans secured by the underlying real property are secured by the real estate financed. Loans to cooperative institutions in the housing industry, which have historically experienced low levels of credit loss, have recently presented increasing problems under recovery.

– Industrial Loans. Industrial loans are principally medium- long-term loans. These loans are large and relatively few in number and are made to large entities, principally in connection with infrastructure or related projects. These loans are repaid on an installment basis, typically through semi-annual payments.

The Italian banking industry has been the subject of complaints from consumer organizations concerning the cost of fixed rate mortgage loans entered into when domestic interest rates were at high levels. A substantial number of Sanpaolo IMI's individual mortgage loan customers have requested renegotiation of such loans, and there may be additional requests in the future. Following a meeting with consumers' associations, Sanpaolo IMI has established certain conditions for the renegotiation of mortgage loans and, based on the number of requests received to June 1, 2000, such renegotiations have had no material effect on the results of the Bank.

During 1999 certain regulations were introduced in Italy concerning loans subsidized by governmental and state owned entities; such regulations allow for either the beneficiary of the loan or the subsidizing entity to renegotiate contractual rates of interest with the banks granting such loans. The impact of this regulation could impose significant costs on the Italian banking system going forward. The Italian Banking Association and several banks, including Sanpaolo IMI, are currently discussing a strategy to defend their interests.

Current Account Overdrafts. The Italian banking system is characterized by the relatively large proportion of overdraft financing provided through current accounts. A borrowing is made whenever a customer's drawings exceed the credit balance in the account. An overdraft customer is granted a maximum overdraft limit on the basis of Sanpaolo IMI's lending criteria, and the customer can draw on the overdraft facility by issuing checks up to that limit. Interest on overdraft facilities is typically charged quarterly and at a floating rate. Overdrafts are demand loans and are generally not subject to repayment schedules.

In March 1999, the Italian High Court ("Corte di Cassazione") rendered two judgements against the Italian banks' contractual practice of capitalizing customers' debit interest on a quarterly basis, while customers' credit interest are capitalized on a yearly basis. During 1999 also Sanpaolo IMI was involved in some law suits started by current account holders against the practice of capitalizing interest on a different basis. The potential adverse effects of those pending proceedings would not have a material adverse effect on Sanpaolo IMI. Moreover, in August 1999, a new law (Decree 342/99) was inacted, and it upheld the practice of capitalization of interest on current accounts if applied to both customers' credit and debit interest. This law provides for all current accounts opened from April 22, 2000 to follow the new practice on capitalization of interest; pre–existing current accounts must also comply with Decree 342/99, from July, 2000 onward. Sanpaolo IMI has already taken steps to comply with such new regulation. During 2000, the constitutionality of Decree 342/99 has been challenged in various law suits, but no judgement has yet been rendered.

Other Forms of Finance. Other forms of finance principally include short-term deposits placed with non-financial institutions both domestically and abroad.

The following table shows net loans by maturities at December 31, 1999:

Net loans (1)	**At December 31, 1999**			
	Within one year	**Between one and five years**	**Greater than five years**	**Total**
		(millions of Euro)		
Mortages and industrial loans	6,864	18,597	11,649	37,110
Current account overdrafts	9,681	-	-	9,681
Repurchase agreements	7,334	-	-	7,334
Advances with recourse	2,196	5	-	2,201
Import-export loans	1,300	192	87	1,579
Finance leases	363	966	366	1,695
Discounted notes	809	280	-	1,089
Personal loans	452	496	21	969
Factoring loans	184	287	250	721
Subordinated loans	22	12	37	71
Other forms of finance	11,057	2,161	1,376	14,594
Loans to banks	15,316	497	767	16,580
Non-perfoming loans (2)	-	1,694	-	1,694
Net loans	55,578	25,187	14,553	95,318

(1) Net loans are total loans net of any value adjustments and also net of any allowance for possible loan losses. "Net loans" is the loan amount that appears on the face of the balance sheet.

(2) Includes non-performing loans to banks. For the purposes of this table all non-performing loans are included in the column "Between one and five years". These numbers refer only to Net loans and therefore differ from the figures for non-performing loans shown under "Risk Elements in the Loan Portfolio" in the table setting forth Total Loans.

Loans by Category of Borrower

At December 31, 1999, two single borrowers (or group of related borrowers), the Ministry of Treasury (Euro 3,925 million) and IRI Group (Euro 2,301 million), accounted for more than 2% of Sanpaolo IMI's net loans. The largest 20 total loan exposures of Sanpaolo IMI Group accounted for 19% of its total loan portfolio while the largest 50 total loan exposures of Sanpaolo IMI Group accounted for 25%. Sanpaolo IMI Group had five ''significant risk exposures'', defined by the Bank of Italy as positions that exceeded 15% of consolidated own funds. These five exposures amounted to Euro 10,674 million.

The following table shows the distribution of Group's net loans by category of borrower.

Net Loans (1)	**At December 31,**				
	1995	**1996**	**1997**	**1998**	**1999**
			(millions of Euro)		
Building and construction industry	6,432	5,905	5,468	5,013	3,711
Commercial and similar activities	9,985	10,162	9,209	10,877	11,353
Industrial	13,112	12,319	12,256	17,018	14,241
Governments	9,557	9,656	11,203	14,255	4,471
Other public agencies	3,483	3,460	3,877	7,642	5,469
Transportation	2,812	2,345	571	3,257	4,432
Agriculture	826	1,000	966	1,044	865
Finance, insurance, leasing, etc.	11,487	10,311	9,157	12,534	6,751
Banks	25,740	29,965	28,239	23,093	22,144
Communications	1,066	872	1,088	1,366	1,389
Foreign non-financial business	1,772	2,621	4,134	9,208	7,269
Other	9,798	9,787	10,048	4,675	13,223
Total	96,070	98,403	96,216	109,982	95,318

(1) Net loans are total loans net of any value adjustments and also net of any allowance for possible loan losses. "Net loans" is the loan amount that appears on the face of the balance sheet.

Loans by geographic Area

The following table shows a geographic distribution of net loans (including securities purchased under agreement to resell and loans to banks) by general location of the customer as reported to Bank of Italy at December 31, 1995, 1996, 1997, 1998 and 1999. The Group's loans are concentrated in northern Italy in line with the distribution of its domestic branch network.

Net loans (1)	**At December 31,**									
	1995		**1996**		**1997**		**1998**		**1999**	
	(millions of Euro, except percentages)									
Loans to residents (2) :										
Northern Italy	40,053	55.6%	38,248	54.3%	38,503	56.6%	45,577	52.6%	42,646	59.8%
Central Italy	23,747	33.0%	24,019	34.1%	21,700	31.9%	32,674	37.7%	21,445	30.1%
Southern Italy	8,237	11.4%	8,170	11.6%	7,823	11.5%	8,397	9.7%	7,238	10.1%
	72,037	100.0%	70,437	100.0%	68,026	100.0%	86,648	100.0%	71,329	100.0%
Loans to non-residents (2)	24,033		27,966		28,190		23,334		23,989	
Total	96,070		98,403		96,216		109,982		95,318	

(1) Net loans are total loans net of any value adjustments and also net of any allowance for possible loan losses. "Net loans" is the loan amount that appears on the face of the balance sheet.
(2) Including banks.

Interest Rate Sensitivity

The following table sets forth a breakdown of fixed rate and variable rate loans due after one year at December 31, 1999. See also Item 9A. "Risk Management".

Net loans	**At December 31, 1999**		
	Domestic	**International**	**Total**
	(millions of Euro)		
Fixed rate	14,398	3,316	17,714
Variable rate	20,592	1,434	22,026
Total	34,990	4,750	39,740

(1) Net loans are total loans net of any value adjustments and also net of any allowance for possible loan losses. "Net loans" is the loan amount that appears on the face of the balance sheet.

Foreign Country Outstandings

The following table sets forth, at the end of the years indicated, the aggregate amount of the Group's cross-border outstandings to borrowers outside Italy where outstandings in the borrowers' country exceeded 1% of the Group's total assets.

Loans and Monetary asset	**At December 31,**					
	1997		**1998**		**1999**	
	(millions of Euro)	**% of total assets**	**(millions of Euro)**	**% of total assets**	**(millions of Euro)**	**% of total assets**
United States	6,044	4.56	2,602	1.64	4,089	2.92
United Kingdom	8,409	6.34	3,133	1.98	3,348	2.39
Japan	2,915	2.20	640	0.40	860	0.61
France	5,534	4.17	4,666	2.95	512	0.37
Germany	1,917	1.45	1,317	0.83	248	0.18
Greece (1)	--	--	2,275	1.44	246	0.18
Luxembourg (2)	1,202	0.91	--	--	225	0.16

(1) No material amounts for 1997.
(2) No material amounts for 1998.

For the year ended December 31, 1999, cross-border outstandings are those outstandings outside Italy denominated or loaned and funded (or otherwise hedged) in a currency other than Euro and/or its currency "in". For previous years denominated or loaned and funded (or otherwise hedged) in a currency other than Italian lire. They include net loans to customers and to banks, other advances, securities and other monetary assets, but exclude finance provided within the Group and loans guaranteed by SACE, an Italian government agency which provides export credit insurance.

The following tables set forth the total amount for each type of borrower and the aggregate amount of Group's cross-border outstandings to borrowers outside Italy where outstandings in the borrowers' country exceeded 0.75 % of the Group's total assets at December 31, 1997, 1998 and 1999. Undrawn lines of credit are disclosed to the extent that management considers them to be material. The geographic breakdown is based on the country of the borrower or of the guarantor of ultimate risk.

Total Loans and Monetary Assets	Government	Banks and other financial institutions	Commercial industrial and others	Total
		(millions of Euro)		
At December 31, 1997:				
United Kingdom	60	7,851	498	8,409
United States	515	3,076	2,453	6,044
France	8	3,057	2,469	5,534
Japan	45	2,691	179	2,915
Germany	464	1,018	435	1,917
Luxembourg	-	1,166	37	1,203
The Netherlands	38	763	198	999
Total	1,130	19,622	6,269	27,021
At December 31, 1998:				
United Kingdom	210	2,453	470	3,133
United States	220	1,531	851	2,602
France	114	1,825	2,727	4,666
Germany	422	713	182	1,317
Greece	331	883	1,061	2,275
Total	1,297	7,405	5,291	13,993
At December 31, 1999:				
United Kingdom	-	618	2,730	3,348
United States	40	1,742	2,307	4,089
Total	40	2,360	5,037	7,437

Risk Elements in the Loan Portfolio

The Group analyzes the risk elements in its loan portfolio based on Italian regulations and industry practice and on applicable local regulations and industry practices in other countries where the Group does business. Its loan classification policies and procedures differ in significant respects from those followed by banks in the United States.

The Group divides its loan portfolio into five broad categories:

- *in bonis*, or performing loans, including loans overdue by more than 90 days which are not otherwise classified; these loans are subject to general provisioning only, except for loans to certain companies under observation, which are subject to valuation on a case-by-case basis; general adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the average percentage of previously performing loans which became doubtful during the last four years. This percentage was then applied on the total of performing loans at the end of the year to determine the potential percentage of performing loans which, based on historical trends, could be transferred in the future to other categories of loans with a higher degree of risk. The average percentage writedown for each risk category was then applied to the total;
- restructured loans or loans in course of restructuring; these loans are valued on a case-by-case basis;

- *incagli*, or problem loans; these loans are subject to valuation on a case-by-case basis;
- *sofferenze*, or non-performing loans; these loans are subject to valuation on a case-by-case basis;
- loans exposed to country risk, which are subject to valuation by applying write-down percentages not lower than those provided by the Italian Banking Association under the regulations of Bank of Italy; with the exception of case-by-case valuations of specific positions which, on the basis of objective criteria, are valued consistently with the loan category to which they relate.

The above categories are currently used within Sanpaolo IMI Group and are reported in the explanatory notes to the financial statements for 1999 (See Note 11 to the Consolidated Financial Statements) according to the principles in force during the period.

Prior to 1998, Sanpaolo did not employ the classification “Restructured loans or loans in course of restructuring” but classified these loans in the other four categories in accordance with their typology. In 1998, Italian rules changed to require the presentation of a separate category “Restructured loans or loans in course of restructuring” and, accordingly, the information relating to the Group loans for 1998 and 1999 is classified to show the additional category.

The Group reports these loans to Bank of Italy in accordance with its regulations. The amount of loans which are restructured loans or loans in course of restructuring is reported to Bank of Italy since 1995 only for regulatory purposes.

Italian regulation and industry practices often result in loans being classified as problem or non-performing loans later than would be the case in the United States. Since many loan payments are due only on a semi-annual basis, a significant proportion of problem loans are loans where a delay in scheduled payments has exceeded 18 months, although the Group does classify many loans, particularly non-installment loans, when the delay in expected payments is much less than 18 months.

Sanpaolo IMI Group’s loan portfolio is monitored on an ongoing basis at Sanpaolo IMI headquarters and in the branches or subsidiaries in order to identify potential problems as early as possible and to evaluate the prospects of recovery and estimated losses with respect to problem and non-performing loans (see Item 9A. “Risk Management”). In addition, for accounting purposes, each non-performing loan, problem loan, restructured or being restructured loan, loan exposed to country risk is evaluated on an ongoing basis and, if deemed warranted, a specific provision or adjustment is made for the expected loss according to the policies and procedures described below. The entire performing loan portfolio is evaluated for accounting purposes every three months on an aggregate basis.

Loans are shown on the balance sheet at their net realizable value, including past due interest that has not been collected, net of value adjustments and allowances. See “-Non accrual of Interest”.

For information on Sanpaolo IMI’s systems for controlling lending risk, see Item 9A “Risk Management” “Lending risk management and control”.

Available figures also show a general trend towards a reduction in the level of portfolio risk.

The following table sets forth Group's total classified loans by category of loan classification, except for loans exposed to country risk, which are discussed below. The table below follows US practice and shows total loans that are past-due 90 days or more. All of the other information in the Annual Report, including credit quality ratios, follows the Italian regulations and industry practices which would, in comparison to US practice, understate classified loans.

Total Loans (1)	**At December 31,**				
	1995	**1996**	**1997**	**1998**	**1999**
	(millions of Euro, except percentages)				
Total loans past-due by more than 90 days (but still classified as in "bonis"):					
Domestic	1,771	1,657	1,087	283	262
of which:					
Outstanding principal(2)	*1,486*	*1,286*	*898*	*217*	*208*
Unpaid installments(3)	*285*	*371*	*189*	*66*	*54*
International	187	190	17	2	1
of which:					
Outstanding principal(2)	*88*	*57*	*1*	*2*	*1*
Unpaid installments(3)	*99*	*133*	*16*	*-*	*-*
	1,958	1,847	1,104	285	263
Total restructured loans or loans in course of restructuring					
Domestic	-	-	-	189	112
International	-	-	-	-	43
	-	-	-	189	155
Total problem loans ("incagli")					
Domestic	3,127	2,359	2,017	1,802	1,532
International	66	154	258	144	13
	3,193	2,513	2,275	1,946	1,545
Total non-performing loans ("sofferenze")					
Domestic	3,404	3,294	3,997	4,282	3,972
International	509	409	269	244	185
	3,913	3,703	4,266	4,526	4,157
Total loans overdue by more than 90 days, non-performing, restructured and in course of restruct. and problem	9,064	8,063	7,645	6,946	6,120
As a percentage of all total loans	12.8%	11.9%	11.3%	6.1%	6.4%

(1) Total loans are loans net of any value adjustments but before deduction for the allowance for possible loan losses. Total loans do not appear on the face of the balance sheet but are set forth in Note 11 to the Consolidated Financial Statements under "Total loans to customers" and "Total loans to banks".
(2) Outstanding principal consists of installment of principal (but not interest) which have not yet come due.
(3) Unpaid installment consists of installments of principal and interest (including default interest) which have come due but have not been paid. See Note 11 to the Consolidated Financial Statements.

In 1996 Sanpaolo sold a loan portfolio composed of 2,100 non-performing loans with a nominal value of Euro 257 million and book value of Euro 193 million for Euro 104 million. Sanpaolo completed a similar transaction in 1997 involving 1,400 loans with a nominal value of Euro 217 million and a book value of Euro 170 million for Euro 98 million.

The increase in classified loans as a percentage of all total loans in 1999 compared to 1998 is mainly due to the overall decrease of Sanpaolo IMI's loan portfolio, and does not indicate an increase in problem loans and non-performing loans.

Non-performing Loans. Under Bank of Italy regulations, the Group classifies a loan as non-performing (i) when the borrower is in insolvency proceedings (ii) once the Group or any other creditor initiates legal proceedings in respect of the debt of that borrower or (iii) if the borrower is experiencing financial difficulties that are not likely to be temporary and which would warrant the initiation of legal proceedings, even if such proceedings have not yet been initiated. In addition, the Group's policy is to classify real estate mortgage loans, which generally require semi-annual installment payments, as non-performing when both (a) no later than upon the borrower's failure to pay four installments when due, that is, when the borrower is two years past due on semi-annual installment payments and (b) when the amount of the overdue payments, net of interests on arrears, is equal or above 20% of the client's exposure (net of the interest on arrears). Bank of Italy's regulations will result in a loan being treated as non-performing significantly later than would be the case in the United States.

The following table sets for Sanpaolo IMI Group's total non-performing loans by customer group and economic sector as percentages of their respective totals as of December 31, 1996, 1997, 1998 and 1999.

Total loans (1)	**At December 31,**							
	1996		**1997**		**1998**		**1999**	
	(millions of Euro)	**% of total non-performing loans**	**(millions of Euro)**	**% of total non-performing loans**	**(millions of Euro)**	**% of total non-performing loans**	**(millions of Euro)**	**% of total non-performing loans**
Non performing loans to non-financial businesses and personal businesses:								
- to resident:								
Building and construction industry	858	23.2	1,292	30.3	1,270	28.1	1,122	27.0
Other sales and distribution services	438	11.8	541	12.7	530	11.7	500	12.0
Wholesale and retail trade	296	8.0	290	6.8	364	8.0	349	8.4
Agriculture, forestry, fisheries	151	4.1	181	4.2	186	4.1	159	3.8
Food, beverages, tobacco	98	2.6	107	2.5	171	3.8	140	3.4
Hotels and public services	74	2.0	76	1.8	88	2.0	91	2.2
Textiles, footwear, clothing	59	1.6	57	1.3	80	1.8	78	1.9
Metals	50	1.4	64	1.5	65	1.4	65	1.6
Paper, printing, publishing	49	1.3	34	0.8	37	0.8	34	0.8
Industrial and agricultural machinery	54	1.5	52	1.2	65	1.4	50	1.2
Mining, minerals	36	1.0	24	0.6	52	1.1	25	0.6
Miscellaneous industrial products	37	1.0	24	0.6	34	0.8	35	0.8
Transportation services	35	0.9	32	0.7	35	0.8	57	1.4
Electronics, electrical goods, EDP	33	0.9	34	0.8	51	1.1	59	1.4
Means of transport	26	0.7	23	0.5	42	0.9	35	0.8
Rubber, plastics	15	0.4	28	0.7	26	0.6	23	0.6
Oil and gas, electric utilities	11	0.3	51	1.2	40	0.9	21	0.5
Chemicals	11	0.3	41	1.0	32	0.7	14	0.3
Communications	1	-	1	-	1	-	1	-
Total	2,332	63.0	2,952	69.2	3,169	70.0	2,858	68.7
- to non resident	343	9.3	253	5.9	224	5.0	202	4.9
Total non-performing loans related to non-financial businesses and personal businesses	2,675	72.3	3,205	75.1	3,393	75.0	3,060	73.6
Other:								
Governments	1	-	-	-	1	-	-	-
Other public agencies	1	-	14	0.3	-	-	5	0.1
Credit Institutions	2	0.1	3	0.1	4	0.1	12	0.3
Financial institutions	183	4.9	172	4.0	156	3.4	137	3.3
Individuals and other operators	841	22.7	873	20.5	972	21.5	943	22.7
Total non-performing loans	3,703	100.0	4,267	100.0	4,526	100.0	4,157	100.0

1) Total loans are loans net of any value adjustments but before deduction for the allowance for possible loan losses. Total loans do not appear on the face of the balance sheet but are set forth in Note 11 to the Consolidated Financial Statements under "Total loans to customers" and "Total loans to banks".

Problem Loans. Under Bank of Italy guidelines, the Group classifies a loan as a problem loan when the borrower is experiencing serious financial difficulties that are likely to be temporary (i.e., can be resolved within a reasonable time). Classification of non-installment loans is based on a number of criteria depending on the nature of the loan and the borrower. For example, a current account overdraft may be classified as a problem loan if the borrower has exceeded the established credit limit for a period of time that would suggest that the borrower is experiencing financial difficulties.

Similarly, installment loans are classified as problem loans based on a variety of criteria, including the classification of non-installment loans extended to an installment borrower as problem loans, or vice versa. Real estate mortgage loans are required to be classified when both, (a) the borrower has failed to pay three semi-annual installments, and (b) when the amount of the overdue payments, net of interest on arrears, is equal or above 20% of the client's exposure (net of interest on arrears), but the Group may classify such loans earlier.

Restructured loans or loans in course of restructuring. Under Bank of Italy guidelines, the Group classifies a loan as restructured when a syndicate of banks (or a single bank) concedes a respite for payment of the loan or re-negotiates such loans at lower–than–market rates; a loan is classified as in course of restructuring when the debtor has applied for consolidation to a variety of banks not more than 12 months previously.

Loans Exposed to Country Risk. Loans exposed to country risk are evaluated under standards set by the Italian Banking Association under the regulations of Bank of Italy, with the exception of case-by-case valuations of specific positions which, on the basis of objective criteria, are valued consistently with the loan category to which they relate. They do not include loans guaranteed by entities in a non-classified country.

Country risk is classified in four categories by Bank of Italy, focusing in particular on credit history, access to the international markets, ratios of debt to gross national product and to exports, debt service ratio and potential and actual extraordinary events for each country. At December, 1999 the Group net exposure in all countries classified as presenting some risk by the Italian Banking Association was Euro 153 million.

Non-accrual of Interest. Accrual of interest is treated differently for installment and non-installment loans. In accordance with Italian law on the enforcement of loan contracts, the Group continues to accrue contractual interest on the non-overdue principal of installment loans if the Group has not accelerated the loan, even if the loan is classified as problem or non-performing, except where the borrower is in bankruptcy. The Group capitalizes and includes in the loan balance such accrued but unpaid contractual interest. Such capitalized interest is subject to allowance and adjustments as discussed below. In 1999, the Group included in income before allowances and adjustments Euro 66 million of unpaid contractual interest with respect to classified loans.

Contractual interest does not accrue on non-installment loans that are classified as non-performing, but it generally does accrue on non-installment problem loans, except in certain circumstances.

For both installment and non-installment loans, default interest or "interessi di mora" is calculated at a penalty rate on all past due payments of principal and interest. Since January 1, 1996, the Group has had a policy of treating all default interest as irrecoverable and non-accruing. However, default interest is capitalized in the loans balance with a matching specific allowance resulting in no net balance sheet effect.

Payments of default interest are accounted for on a cash basis. During 1996, 1997, 1998 and 1999, Euro 67 million, Euro 55 million, Euro 53 million and Euro 42 million respectively, of such interest was collected.

Neither contractual interest nor default interest is calculated on loans to borrowers who have been declared bankrupt or are in bankruptcy proceedings. At December 31, 1999, approximately 29% of Sanpaolo IMI Group's total non-performing loans were to such borrowers.

Allowance for Possible Loan Losses and Value Adjustments to Loans. Sanpaolo IMI Group records loan provisions through allowances for possible loan losses, which may be deducted from income for tax purposes only in specified amounts over time as discussed below, and through adjustments to the value of loans, which may be made only in the limited circumstances described below but which are immediately deductible for tax purposes.

Under Italian tax law, net provisions for possible losses in loans to customers and provisions for general credit risk are immediately deductible from taxable income up to 0.5% of loans to customers at year-end, until the cumulative allowance for general credit risk totals a maximum of 5% of such loans. Following changes in Italian tax law in 1995, net provisions over 0.5% may be deducted from taxable income on a straight line basis over seven years. Prior to these changes, provisions over 0.5% typically were not deductible for tax purposes. Provisions to loans to banks are not deductible from taxable income until the loss is realized. Also, Sanpaolo IMI Group makes provisions to loans exposed to country risk according to the percentages not less than those indicated by the Italian Banking Association under the regulations of Bank of Italy and these loans are shown net of such provisions on the balance sheet. Such provisions are generally subject to the 0.5% deductibility limit.

Loans are shown on the balance sheet at their net realizable value, including past due interest that has not been collected, net of value adjustments and allowances. Allowances are shown in a notation on the balance sheet, while value adjustments, which are made directly to the value of loans, are not separately noted, except for value adjustments related to the current year.

Guarantees and commitments and risks and charges are evaluated by Sanpaolo IMI Group with the same criteria of loans and, where necessary, a provision for possible losses is recorded in the income statement and balance sheet.

The following table provides details of the changes in the Group's allowance for possible loan losses as they affected the balance sheet and income statement in the periods indicated.

	Year ended December 31,				
	1995	1996	1997	1998	1999
			(millions of Euro)		
Openings balances	1,194	2,339	2,333	2,489	3,469
Charge off:					
Reported provision	858	558	742	741	664
Value adjustments charged directly to income	252	258	287	22	-
Total charge off	**1,110**	**816**	**1,029**	**763**	**664**
Recoveries:					
Reversal taken to income	(26)	(87)	(79)	(92)	(159)
Recoveries of value adjustments taken to income	(47)	(42)	(114)	(68)	(68)
Change in estimated loss on loans	(371)	(186)	(141)	(94)	(134)
Total recoveries	**(444)**	**(315)**	**(334)**	**(254)**	**(361)**
Net charge off	**666**	**501**	**695**	**509**	**303**
Other changes:					
Loans closed or cashed out	(611)	(803)	(744)	(459)	(494)
Acquisitions and dispositions (1)	827	-	(51)	670	(23)
Gross up to reflect default interest	236	300	256	212	176
Other	27	(4)	-	49	27
Total other	**479**	**(507)**	**(539)**	**472**	**(314)**
Ending balances	**2,339**	**2,333**	**2,489**	**3,470**	**3,458**

(1) The balance includes the total adjustments of the merged IMI group as of December 31, 1997. The balance includes also the adjustments for the deconsolidation of Crediop as of December 31, 1999.

The following table provides a breakdown of the allowance for loan losses by loan category.

(millions of Euro; except percentages)

	Allowance	Percent to total (1)	Total loans percentage (2)
	At December 31, 1995		
Domestic:			
Government and other public entities	105	4.49%	16.99%
Credit institutions	-	0.00%	1.10%
Non-financial businesses	1,520	64.99%	39.50%
Other	240	10.26%	30.03%
International	439	18.77%	12.38%
Unlocated	35	1.50%	-
	2,339	100.00%	100.00%
	At December 31, 1996		
	Allowance	**Percent to total (1)**	**Total loans percentage (2)**
Domestic:			
Government and other public entities	14	0.56%	18.82%
Credit institutions	-	0.00%	0.71%
Non-financial businesses	1,666	71.44%	43.07%
Other	257	11.02%	25.29%
International	367	15.74%	12.11%
Unlocated	29	1.24%	-
	2,333	100.00%	100.00%
	At December 31, 1997		
	Allowance	**Percent to total (1)**	**Total loans percentage (2)**
Domestic:			
Government and other public entities	25	1.01%	18.82%
Non-financial	-	0.00%	0.71%
Non-financial businesses	1,654	66.45%	43.07%
Other	398	15.99%	25.29%
International	293	11.77%	12.11%
Unlocated	119	4.78%	-
	2,489	100.00%	100.00%
	At December 31, 1998		
	Allowance	**Percent to total (1)**	**Total loans percentage (2)**
Domestic:			
Government and other public entities	85	2.48%	18.88%
Credit institutions	2	0.05%	8.93%
Non-financial businesses	2,599	74.88%	44.27%
Other	211	6.08%	6.82%
International	329	9.48%	21.10%
Unlocated	244	7.03%	-
	3,470	100.00%	100.00%
	At December 31, 1999		
	Allowance	**Percent to total (1)**	**Total loans percentage (2)**
Domestic:			
Government and other public entities	1	0.03%	10%
Credit institutions	1	0.03%	10%
Non-financial businesses	2,781	85.74%	51%
Other	129	3.73%	4%
International	341	10.32%	25%
Unlocated	205	0.15%	-
	3,458	100.00%	100.00%

(1) Percentage of allowance in category to aggregate allowances.
(2) Percentage of loans in category to total loans.

The following table presents certain credit quality ratios.

	At or for the year ended December 31,				
	1995	1996	1997	1998	1999
Loan loss allowance for non-performing loans as a percentage of total non-performing loans	41.24%	41.76%	40.90%	55.53%	59.25%
Loan loss allowance for problem loans as a percentage of total problem loans	16.44%	20.23%	19.94%	24.13%	32.10%
Loan loss allowance to loans as a percentage of total loans	2.38%	2.32%	2.52%	3.06%	3.50%
Non-performing loans as a percentage of total loans:					
Total	3.98%	3.68%	4.32%	3.99%	4.21%
Net	2.34%	2.14%	2.55%	1.77%	1.71%
Problem loans as percentage of total loans:					
Total	3.25%	2.50%	2.31%	1.71%	1.56%
Net	2.71%	1.99%	1.85%	1.30%	1.06%
Net charge off as a percentage of average loans and leases to non-credit institutions	1.02%	0.77%	1.09%	0.61%	0.44%

The following table presents certain statistics related to total loans for the periods indicated.

Total Loans (1)	At December 31,				
	1995	1996	1997	1998	1999
	(millions of Euro; except percentages)				
Total loans	98,408	100,738	98,705	113,452	98,776
Net charge off as a percentage of total loans	0.68%	0.50%	0.70%	0.45%	0.31%
Total allowance at the end of period as a percentage of total loans	2.38%	2.32%	2.52%	3.06%	3.50%

(1) Total loans are loans net of any value adjustments but before deduction for the allowance for possible loan losses. Total loans do not appear on the face of the balance sheet but are set forth in Note 11 to the Consolidated Financial Statements under "Total loans to customers" and "Total loans to banks".

Liabilities

Funding Sources

The principal components of the Group's funding are customer deposits (demand and saving accounts), repurchase agreements, Certificates of Deposit ("CDs"), bonds, subordinated debt and interbank funding. The Group's retail customers are the main source of Group's funding.

Funding by Source and Type. The following table shows the source and type of Group's funding at December 31, 1997, 1998 and 1999.

	At December 31,					
	1997		1998		1999	
	(millions of Euro, except percentages)					
Customer funds:						
Current accounts	26,104	23.79%	26,264	20.73%	31,344	28.89%
Saving accounts	3,821	3.48%	3,773	2.98%	4,752	4.38%
Repurchase agreements	8,651	7.88%	8,767	6.92%	3,758	3.46%
CDs	13,785	12.56%	12,059	9.52%	9,090	8.38%
Bonds	25,540	23.28%	38,437	30.34%	23,643	21.79%
Commercial papers	877	0.80%	1,395	1.10%	2,584	2.38%
Other (1)	2,140	1.95%	6,703	5.29%	3,786	3.49%
Unsubordinated customer funds	80,918	73.74%	97,398	76.88%	78,957	72.77%
Subordinated liabilities	1,822	1.66%	1,511	1.20%	1,524	1.41%
Total customer funds	82,740	75.40%	98,909	78.08%	80,481	74.18%
Due to banks:						
Due to central banks	2,931	2.68%	257	0.21%	5,070	4.67%
Due to other banks	24,058	21.92%	27,505	21.71%	22,942	21.15%
Total due to banks	26,989	24.60%	27,762	21.92%	28,012	25.82%
Total funding	109,729	100.00%	126,671	100.00%	108,493	100.00%

(1) Includes public funds administered of Euro 62 million, Euro 69 million and Euro 50 million for 1997, 1998 and 1999 respectively.

At December 31, 1999 euro funding represented approximately 83% of the Group's total funding.

Domestic current and saving accounts are primarily interest-bearing accounts. CDs and bonds are issued both by Sanpaolo IMI, its international branches, Sanpaolo IMI Bank (International) and Banca IMI Group, and have maturities ranging from three months to ten years.

COMPETITION

The Sanpaolo IMI Group's main competitors in banking and financial services have traditionally been other Italian banks, some small and operating at the local level and others larger and operating across the domestic market. More recently, the growing popularity of the Internet and the introduction of new technology in mobile telephone networks has created new opportunities for non-traditional operations. It is expected that further technological developments will continue to increase competition.

The Group faces strong competition throughout Italy and internationally in different markets. The Italian banking system is highly fragmented, as, according to the Bank of Italy, Italy had more than 876 banks at the end of 1999. The deregulation of the banking industry throughout the European Union, and in particular in Italy, has contributed to increasing competition in both deposit-taking and lending activities which has resulted in a progressive narrowing of spreads between deposit and loan rates. Moreover, legislation such as the Amato Law, the Dini Directive and the Ciampi Law (see “The Italian Banking systeme: supervision and regulation, Italian regulations-Overview”) have encouraged a privatization and consolidation process in the Italian banking system that is expected to create larger, more publicly accountable and more competitive institutions. In addition, deregulation and consolidation both in Europe and further abroad have begun to have a considerable impact on competition in the Italian financial system. Expectation and adoption of the Euro and generally lower interest rates compared to those of the former national currency have also had an impact on net interest income.

In the asset management, private banking and insurance sectors, Sanpaolo IMIfaces strong competition from a range of banks and financial service providers, including internet service providers. Although substantial growth in these sectors has allowed the industry to flourish despite intense competition, the development of new savings channels has limited the growth of customer deposits and customer funds recently even in the context of a consistently high ratio of household savings to GDP.

EMPLOYEES

The Group's workforce numbered 24,133 employees at the end of 1999, a decrease of 394 employees compared to 1998. The reduction was confined to the Bank, where a program of early retirement incentives and control of staff turnover reduced the number of staff by 498.

On the other hand there was a net increase of 104 employees for other Group companies reflecting recruitment in the savings management and investment banking business areas.

Employment Agreements

National collective contracts in Italy are generally negotiated between the national association of banks and the national unions. The relations of the individual banks with their employees must be based on and respect the guidelines set out by the national collective contracts. The national collective contract for non-management staff (which covers almost all Sanpaolo IMI employees) was renewed on July 11, 1999 and will be valid until December 31, 2001.

The new contract has unified the existing two categories of employees, classified as cadres ("quadri") and middle management ("funzionari"), into a single intermediate category with no further distinction. This category will cover most present managerial staff, a small percentage of which may become executives "dirigenti" (not more than 2.5% of the entire workforce).

The new contract also allows companies to adopt special rules on working hours, salary for newly-hired staff and duties, for those activities not typically linked with the Bank's business which include important technical, administrative and IT sectors. For these activities companies other than the Bank may also be used, whether they are controlled or not.

To improve customer relationship, working hours have been made more flexible in order to reach a longer average during the day, especially for the computer-based banking services.

The cost of workforce was stable and reductions due to cuts in seniority pay, bonuses and the starting salary for newly-hired. Moreover, hirings are more flexible as a result of the adoption of temporary or part-time contracts.

The contract for executives ("dirigenti") is under discussion and should be renewed during the current year.

Sanpaolo IMI incentives employees to retire – at a national level new encourages will be available in case of restructuring or mergers – and has increased its staff performance-related bonus schemes.

The incentive scheme is aimed principally at the distribution network. It provides for cash bonus payments, calculated and communicated in advance, both for the branch managers and for the staff. It is directly related to the achievement of set targets. This system currently covers more than 80% of employees. Sanpaolo IMI intends to extend it to all areas of the Group which have specific volume or profitability targets.

Sanpaolo IMI has set up a Stock Option Plan for managing directors and other top executives. Cash incentives linked to the achievement of performance targets also have been set up for all bank's employees.

Benefits

Sanpaolo IMI provides certain retirement benefits to its employees. From December 31, 1990, Sanpaolo and its employees began to make certain contributions to the *Istituto Nazionale per la Previdenza Sociale* ("INPS"), the state-run pension scheme, which provides a flow of income to employees upon retirement.

Until December 31, 1990, employees of Sanpaolo were entitled to retirement benefits from the *Cassa di Previdenza*, a private pension scheme funded by Sanpaolo and by Sanpaolo's employees. In accordance with the Amato Law, Sanpaolo was no longer due to make payments to the *Cassa di Previdenza* after December 31, 1990. After December 31, 1990 those employees who were employed by Sanpaolo as of that date became entitled to receive from the *Cassa di Previdenza* supplemental benefits which, when added to the payments from INPS, provide such employees with equivalent retirement coverage as was extended to them under the *Cassa di Previdenza* scheme prior to December 31, 1990. Approximately 10,000 employees of Sanpaolo IMI will benefit from this retirement plan. As of December 31, 1999 Sanpaolo IMI had set aside a total of Euro 99.2 million in prior years with respect to this retirement coverage.

Sanpaolo IMI has also created the Fondo Pensione del Gruppo Sanpaolo IMI, a private pension fund to which employees can make tax deductible contributions. Sanpaolo IMI also makes tax deductible contributions to the same fund on behalf of such employees.

Furthermore, pursuant to Italian legislation, Sanpaolo IMI annually puts aside for every employee a certain amount (equal to the employee's annual salary divided by 13.5), and upon retirement, pays the employee the sum of such amounts adjusted for inflation. Sanpaolo IMI provides for such payments on its balance sheet in accordance with Italian GAAP.

Labor Relations

Overall, Sanpaolo IMI believes that relations with its employees are satisfactory. Approximately three-quarters of the work force belong to one of nine national unions, representing both employees and middle-management. This is in line with the Italian banking industry.

THE ITALIAN BANKING SYSTEM: SUPERVISION AND REGULATION

Italian Banking Regulations - Overview

Structure of the Italian Banking System. Italy's banking industry was regulated for over 50 years under the Banking Act of 1936, a law that set out the structure of the banking industry and regulated the different specialized types of institutions, so that the market has been fragmented and largely shielded from competition. During the 1990s, the Italian banking system has been undergoing a process of reorganization and consolidation which has led to growth in the average size of banks and in the number of their branches but has reduced the total number of banks. See “Competition”.

The reorganization is the consequence of changes in banking regulations as well as the competitive stimulus resulting from the liberalization of European financial markets and the advent of the Euro. The main steps of the regulatory changes were the enactment of Law No. 218 of July 30, 1990 (the “Amato Law”) and the privatization process, the implementation of EU Directives and the Legislative Decree No. 385 of September 1, 1993 (the “Consolidated Banking Law”).

The current system emphasizes the freedom of banks to decide which banking and related financial activities to engage in and which structures to adopt, subject only to generally applicable rules of prudence and the banks' own By-laws. The framework of the Italian banking regulations now largely mirrors the EU Second Banking Directive. The effect of the regulatory changes and Europe-wide liberalization has been a significant increase in competition in the Italian banking industry.

The privatization process. The Amato Law, enacted in July 1990, encouraged banks controlled by governmental and public entities to adopt a joint-stock stucture and to strengthen their capital bases, and encouraged the Italian banking industry to consolidate. Private participation in the newly formed corporations was permitted and encouraged, but - until the Law No. 474 of July 30, 1994 (the “Privatization Law”) came into force - governmental and other public entities minority shareholding was permitted only if it appeared to be in the public interest and only after prior authorization by the Council of Ministers.

The process has accelerated since the implementation of the Privatization Law and the Decree of the Minister of Treasury (the “Dini Directive”), enacted respectively in July and November 1994. The sale of majority holdings of banks owned by the Ministry of Treasury as well as Italian banking foundations (considered public law entities) to the private sector has been permitted and promoted. Certain fiscal incentives have been provided for Italian banking foundations to reduce below a 50% level, either, their equity participation in, or their income derived from, any Italian bank that converted into a joint-stock company under the Amato Law. If the Dini Directive requirements were met by the end of 1999, all capital gains arising from such public offerings or sales would be tax-free.

Furthermore, to encourage the course of the current reform, new incentives have been introduced pursuant to Law No. 461 of December 23, 1998 (the “Ciampi Law”), which reorganizes the regulatory framework over the Italian banking foundations. Pursuant to the Ciampi Law, Legislative Decree No. 153 has been issued on May 17, 1999; this Decree qualifies such foundations as private no profit organizations with social purposes (science, education, health and other charitable purposes) if they modify their by-laws and, over the following four years, they progressively divest their control interests in banks and only maintain control interests in entities dealing with social purposes. The Ministry of Treasury authorizes sales of holdings of banks owned by the foundations; such sales must be in compliance with transparency and non-discriminatory criteria.

Implementation of the EU Second Banking Directive. Effective January 1, 1993, the distinction between "ordinary credit institutions" and "special credit institutions" was formally eliminated (Legislative Decree No. 481 of December 14, 1992). Banking activities are now performed by a single category of credit institution (*banche*), which can collect demand and savings deposits from the public, issue bonds and grant medium and long-term credit, whether subsidized or not, subject to regulations issued by Bank of Italy.

Italian banks are now either (a) banks with corporate structure (*Società per Azioni*) owned directly or indirectly by the private sector or by banking foundations, (b) cooperative banks (*banche popolari* and *banche di credito cooperativo*), or (c) residual public law entities, governed by special regulations. As well as the banking business, and subject to their By-laws and to financial services regulation, banks may engage in all the business activities that are subject to mutual recognition under the EU Second Banking Directive, as well as other financial activities not listed therein.

European credit institutions may conduct banking business in Italy as well as those business activities that are subject to mutual recognition and are authorized to be carried out in their home country, provided that Bank of Italy is informed by the entity supervising the relevant EU credit institution. Such supervising entity retains control over the relevant EU credit institution (rule of "home-country control").

Consolidated Banking Law. Effective January 1, 1994, the Consolidated Banking Law repealed and replaced, among others, the Banking Act and Legislative Decree No. 481. Among the provisions of the Consolidated Banking Law are those concerning the role of the supervisory authorities; the definition of banking and related activities; the authorization of banking activities; the acquisition of equity participation in banks; banking supervision (on an unconsolidated basis, as well as on a consolidated basis); special bankruptcy procedures for banks, and the supervision of financial companies. The resulting regulatory framework of Italian banking system is described below.

Supervisory Authorities

Under the Consolidated Banking Law, the supervision and regulation of Italian banks are exercised by:

- the Interministerial Committee for Credit and Savings (the *Comitato Interministeriale per il Credito e per il Risparmio* or "CICR"),
- Minister of Treasury, and
- Bank of Italy.

The principal objectives of the regulation are the protection of depositors and the stability and efficiency of the financial system.

The CICR, which includes the Minister of Treasury and other economic ministers, has wide-ranging powers to make policies and issues guidance in the banking regulation. The CICR acts on proposals submitted by Bank of Italy.

The Minister of Treasury has broad powers in relation to banking and other financial activities. It authorizes the establishment in Italy of the first branch of non-EU banks, sets eligibility standards to be met by holders of equity interests in the share capital of a bank and the level of professional experience required of directors and executives of banks and other financial intermediaries. The Minister may, in cases of urgency, adopt measures which generally belong to CICR and may also fine banks and their managers with administrative sanctions and rule the compulsory liquidation (*liquidazione coatta amministrativa*) or the extraordinary management (*amministrazione straordinaria*).

Bank of Italy implements the policies set forth by CICR by adopting regulations and instructions concerning the following four main areas: capital requirements; risk exposure; acquisition of equity participations; administrative and accounting organization and internal audit.

Moreover, Bank of Italy supervises the banking institutions through its own auditing body, granting authorizations and examining the reports that banks are required to file with it on a regular basis. The main supervisory powers include the review of financial statements and statistical data, the prior review of amendments to By-laws, of inspections, and the verification of capital ratios, reserve requirements and exposure limits.

Bank of Italy conducts inspections of all credit institutions through its supervisory staff of auditors. Matters covered by an examination include the accuracy of reported data, compliance with banking regulations, and By-laws. Specific areas of audit include compliance with exposure and other prudential limits.

Bank of Italy requires all banks to report interim balance sheets on a monthly basis.

Participation in the Share Capital of a Bank

Pursuant to Section 19 of the Consolidated Banking Law, Bank of Italy's prior authorization is required in the event that acquisition of shares (together with the shares already held) triggers the threshold of 5% of the voting rights or leads to a situation of control of the target. Prior authorization by the Bank of Italy is also required when the 10%, 15% 20%, 33% or 50% threshold of the voting rights is triggered.

Following the introduction in October 1999 of certain new regulations, the authorization from Bank of Italy must also be obtained before any irrevocable commitment to buy a significant stake in a bank.

In the case of purchases (or sales) which could lead to gaining control of a bank, the request for authorization to Bank of Italy must also be preceded (not more than 30 days before) by a preliminary notification to the Bank of Italy concerning the main elements of the transaction (timetable, methods and sources of finance).

Bank of Italy may grant the authorization subject to conditions likely to ensure the sound and prudent management of the bank. Persons who, through subsidiary companies or otherwise, engage in significant business activity in economic sectors other than banking and finance may not be authorized to acquire shares of a bank which, when added to those already held, would exceed 15% per cent of the voting rights or control of the bank.

Bank of Italy (as well as Commissione Nazionale per le Società e la Borsa , the agency which administers the Italian securities regulations, “CONSOB” when the bank is a listed company) must be notified of any agreement, however concluded, which involves an Italian bank or could lead to a joint exercise of voting rights in a bank or in the parent company of such bank.

Deposit Insurance

The Interbank Deposit Guarantee Fund (*Fondo Interbancario di Tutela dei Depositi*) (the “Guarantee Fund”), established in 1987 by the principal Italian banks, protects depositors against the risk of insolvency of the bank and the loss of their deposited funds. Sanpaolo, has been a member of the Guarantee Fund since 1987.

According to the amended Consolidated Banking Law, enacted in 1996 (pursuant to EU Directive No. 94/19), a bank’s membership in such guarantee schemes is compulsory and must have a minimum coverage of Lire 200 million (Euro 103,291)per depositor.

Deposits covered by the Guarantee Fund are mainly those of ordinary customers, namely repayable funds in the form of deposits, bank drafts and other similar instruments. On the other hand, bearer deposits, bonds and deposits placed by other credit institutions for their own account have been excluded. Furthermore, the guarantee scheme does not cover deposits of government and local authorities, financial and insurance companies, and mutual funds.

Capital Adequacy Requirements

Solvency Ratios. The implementation of the Basle Committee’s risk-based capital guidelines is based on the EU’s “Own Funds Directive” and the “Solvency Ratio Directive”. Under these risk-based capital guidelines, implemented since 1992 by Bank of Italy, a bank's capital adequacy assessment is based on the ratio of its total capital to the risk-adjusted value of its assets and off-balance sheet exposures. A bank's capital is composed of primary capital and supplementary capital. The consolidated total of primary and supplementary capital of a bank may not be less than 8% (or 7% on an unconsolidated basis) of the bank's risk-weighted assets.

Primary capital (Tier I) consists of paid-in equity capital, retained earnings, funds for general banking risks, and innovative capital instruments such as preferred shares, less any of its own shares held by the bank, intangible assets and losses for the preceding and current fiscal years. Innovative capital instruments can be included in Tier I capital for an amount of up to 15% of the capital including such instruments. Any amount in excess of that level can be included in supplementary capital (Tier II) as hybrid capital instruments. Tier II capital consists of asset revaluation reserves, general loan loss reserves, hybrid capital instruments and subordinated loans, less net unrealized losses from investments in securities. Starting in March 1998, supplemental assets may include 35% of the net unrealized gains on interests in non-banking and non-financial companies listed on a regulated market. 50% of any net losses must be deducted from supplemental assets, as already provided for net losses on securities. Supplementary capital is limited to the total of primary capital. There are also limitations on the maximum amount of certain items of supplementary capital, e.g. subordinated debt may not exceed 50% of primary capital.

To assess the capital adequacy of banks under the risk-based capital guidelines, a bank's capital is related to the total of the risk-adjusted values of its assets and off-balance-sheet exposures. The various categories of assets are assigned one of five risk weightings: 0%, 20%, 50%, 100% and 200%.

The capital adequacy ratios are applied to the sum of primary and supplementary capital, less equity investments and certain quasi-equity capital instruments in, and subordinated loans to, affiliated credit and financial institutions.

The following table sets forth the Tier I and the Tier II capital levels and the relative ratios of the Sanpaolo IMI group at December 31, 1998 and 1999. According to Bank of Italy regulations, the ratios set forth with respect to the capital of Sanpaolo IMI have been calculated of any dividend distributions:

	At December 31,	
	1998	**1999**
	(millions of Euro, except ratios)	
Tier I capital:		
Share capital	4,345	3,926 (2)
Additional paid-in capital	-	-
Reserves	4,066	4,261
Less: intangible assets	(366)	(682)
Tier I capital	8,045	7,505
Tier II capital:		
Revaluation reserves	-	-
Subordinated debt	1,367	1,355
Other positive items	100	74
Other negative items	(189)	(174)
Tier II capital	1,278	1,255
Less: financial investments	(116)	(737)
Total Tier I and Tier II capital (''Own Funds'')	9,207	8,023
Capital adequacy ratios (1)		
Tier I Capital/risk weighted assets (1)	9.7%	9.6%
Regulatory Capital/ risk weighted assets (1)	11.1%	10.3%

(1) The total risk weighted assets include the translation on market risk into Risk – Weighted Assets.
(2) The Decrease in share capital during 1999 is due to the Spin -off- See "Other Significant Developments"

Market Risk Capital Requirements. In March 1997, based on EU Directive 92/6 and in response to the increased activity of Italian banks in securities intermediation, Bank of Italy requested specific capital requirements, on a consolidated basis, to carry out such activity,. The requirements concern the various classes of risk involved and apply to all securities not held to maturity (i.e., trading account securities and available-for-sale investment securities).

The risks covered by the capital requirements are:

- position risk: the risk deriving from fluctuations in the price of the securities due to market trends and the status of the issuer;
- settlement risk: the risk that arises in securities settlement transactions when, after the contract has matured, the counterparty has not fulfilled its obligation to deliver the securities or amounts due;
- counterparty risk: the risk that the counterparty will not perform its contractual obligations upon maturity;
- concentration risk: refers to exceeding, as the result of risk positions in the portfolio of marketable securities, the individual credit limit established with regard to the concentration of risks;
- foreign exchange risk: the risk of incurring losses due to adverse changes in foreign exchange rates.

In February 2000, Bank of Italy, pursuant to EC Directive 98/31, introduced the possibility (subject to prior authorization) for banks to use their own internal models to calculate capital requirements to cover market risks. The models may use commodity position risk and total portfolio exchange rate risk. As of December 31, 2000, certain other modifications to the regulatory framework on market risk concerning the calculation of commodity position risk and new methods of valuing options will become effective.

See Note 18 in the Notes to Consolidated Financial Statements.

Lending Limitations

Bank of Italy issued certain instructions in respect of the EC Large Exposure Directive in October 1993. From November 1993 until the end of 1998 all loans made by a bank to a single borrower or group of affiliated borrowers (together with all other exposures as defined by the Large Exposure Directive) could not exceed 40% of the bank's own funds (as defined pursuant to the EC Own Funds Directive). Since January 1999 this ceiling has been lowered to 25% of the bank’s own funds. However, in accordance with the provisions of the Directive permitting the grandfathering of excess exposures, Bank of Italy's instructions provide that weighted exposures in excess of the applicable thresholds would not be required to be reduced immediately upon effectiveness of the Directive's limitations in 1994, but would need to be gradually brought within specific limits. Such limits took effect at the beginning of 1997 and declined over time (60% of own funds from 1997 to 1998, 40% from 1998 to 2001, and 25% thereafter).

A specific limit applies to loans to companies which are affiliated with banks (i.e. companies whose interest equals or exceeds 20% is held by a bank) and to loans to shareholders whose interest in a bank equals or exceeds 15%. Such specific limit provides that these exposures cannot exceed 20% of the bank's own funds as specified by Bank of Italy regulations.

In addition, the amount of a bank's large exposures — defined as exposures individually exceeding 10% of its own funds — may not in the aggregate exceeds eight times the bank's own funds. Under Bank of Italy's instructions, loans and other exposures are assigned one of four risk weightings (0%, 20%, 50% or 100%), largely depending on the identity of the debtor or guarantor.

These concentration limitations will apply to banking groups on a consolidated basis, although the activities of securities dealing firms (*società di intermediazione mobiliare, “SIMs”),* belonging to a banking group are not to be taken into account in assessing the group's exposures. In addition, banks belonging to a banking group are individually subject to a 40% limitation on weighted exposures to a single borrower or group of affiliated borrowers.

At December 31, 1999, the Group had five large exposures. See “Selected Financial Information - Loan by category of borrower” and Note 21 in the Notes to Consolidated Financial Statements.

Equity Participations by Banks

Banks are permitted to make equity investments in all types of companies, subject to rules enacted by Bank of Italy. Generally, equity participations by a bank in all types of companies may not in the aggregate exceed, together with real estate investments, the bank’s consolidated capital. These rules require prior authorization for equity investments exceeding 10% of the consolidated capital of the acquiring bank or 10% or 20% of the capital stock (or otherwise entailing the taking of control) of the bank, financial or insurance company being acquired and for taking control of ancillary banking service companies. Investments in insurance companies exceeding in the aggregate 40% of the bank's consolidated capital (and 60% of its unconsolidated capital) are not authorized.

Moreover, equity participations in companies other than banks or financial or insurance companies may not exceed (i) 15% of the bank's consolidated capital (or 7.5% for investments in unlisted companies), (ii) 3% of the bank's consolidated capital for investments in a single company or group of companies, or (iii) 15% of the capital stock of the company whose shares are being acquired by the bank. The limit described in (iii) does not apply if the value of the participation and the sum of all the other investments exceeding the 15% owned by the bank, do not exceed 1% of its consolidated capital.

Higher limits are applied by Bank of Italy upon request by *banche abilitate* (authorized banks), which are banks with at least Lire 2,000 billion (Euro 1,033 million) in capital and which meet the solvency ratios, and for the so-called “specialized banks,” which are defined as banks that collect mainly medium- and long-term funds, take no demand deposits, have capital in excess of Lire 2,000 billion (Euro 1,033 million) and meet the solvency ratios. Bank of Italy has named Sanpaolo IMI as a *banca abilitata*. As a result, Sanpaolo IMI is empowered to purchase over 15% of the capital of a non financial company, as long as both the value of the participation and the sum of all other investments exceeding the 15% limit do not exceed 2% of its consolidated capital. The aggregate of the participations in non-financial companies cannot, in any event, exceed 50% of Sanpaolo IMI's consolidated capital (or 25% of its consolidated capital for investments in unlisted companies); investments in a single non financial company or group of companies may not exceed 6% of the bank’s consolidated capital.

Medium- and Long-Term Credit and Funding Activity

The regulations permit all banks to provide, without restriction, medium- and long-term credit to borrowers other than companies. The granting of medium- and long-term credit is permitted without limit to those banks whose shareholders' equity exceeds Lire 2,000 billion (Euro 1,033 million) as well as to former special credit institutions — regardless of the amount of their shareholders' equity — and to those banks whose liability structure is principally founded on funding raised in the medium- and long-term markets.

Other banks may extend medium- and long-term credit within the limit of 20% of total funding. Furthermore, the regulations include rules concerning control of the change in maturities as well as methods that empower Bank of Italy to identify the banks most exposed to the risk of losses linked to interest-rate fluctuations.

With reference to the provisions concerning funding activity, the regulations provide the opportunity for all banks to collect savings from the public in any form permitted by law. Banks are also permitted to use various instruments such as bonds, certificates of deposit, and other funding instruments, which can also be issued in the form of subordinated or perpetual debt for funding activities.

Obligatory Reserves

ECB and Bank of Italy require that banks based in Italy must keep obligatory reserves, directly or indirectly through an intermediary bank and in cash, with Bank of Italy.

The amount of the reserve is calculated on a monthly basis at a 2% rate on the total of the following assets subject to the reserve requirements: liabilities from deposits and off balance sheet liabilities, excluding liabilities due to other banks, ECB and national central banks. The applicable portion is 0% for deposits and debt securities issued with a maturity of more than two years or repayable with notice of more than two years and for repurchase agreements.

The reserve can be amended by banks for the whole amount during the particular month as long as the average amount of the daily balances is not less than the required reserve. Bank of Italy pays interest on the reserve at the average refinancing rates set by ECB for that month. Sums in excess of the reserve required do not receive interest. In the case of contravention of the requirements of the obligatory reserve, ECB may impose proportional fines on the bank (or intermediary bank).

Financial Intermediaries

The Consolidated Banking Law also governs certain financial activities performed by non-banking entities, which, in order to be allowed to deal with the public, must be enrolled in a general register kept by the Ministry of the Treasury. Such regulated financial activities are as follows: acquiring equity investments, granting loans in any form (including leasing activities) and performing payment or brokerage services in foreign currency.

Financial intermediaries that deal with the public may engage in the activities listed above and, subject to specific authorization, derivatives trading activities for their own accounts and placement of financial instruments, are required to observe the rules for clarity of contractual conditions set forth the Consolidated Banking Law. Further provisions set forth requirements for the probity of the participants and for the probity and professional competence of their business representatives.

The financial intermediaries have also to be enrolled in a special register (provided for in Section 107 of Decree N. 385 of 1993, the “Special Register”) kept by Bank of Italy, if they meet certain objective criteria, defined by the Ministry of Treasury, and corresponding to the activities they perform, their size and their debt to equity ratio. These intermediaries are subject to the oversight of Bank of Italy, which, in August 1996, issued regulations concerning various aspects of capital requirements and risk management. Financial intermediaries must also comply with the rules governing the regular and consolidated annual financial statements of banks.

Securities Market Control and Legislation

The Italian implementing provisions (Law No. 415 of 1996, "Eurosim Law") of the European Directives on investment services (No. 93/22/EEC of May 10, 1993) and market risk capital requirements (No. 93/6/EEC of March 15, 1993), allowed banks to operate directly in regulated securities markets. Restrictions on access by foreign banks and investment firms to the Italian investment services sector have also been removed.

In 1998 the regulations introduced by the Eurosim Law have been reorganized within the framework of the Consolidated Securities Law approved by Legislative Decree No. 58 of February 24, 1998, (the "Consolidated Securities Law").

The Consolidated Securities Law contains rules concerning the prudential supervision applicable to intermediaries that provide investment services (including the requirement to use guarantee systems as protection against crises) and to intermediaries that offer collective investment management services (mutual funds and open-end investments companies). Other sections of the Consolidated Securities Law concern standards for organization and management of financial markets, centralized management of financial instruments, methods for soliciting investments and corporate governance of companies that have listed securities.

Regulated Markets. The organization and management of the regulated markets is reserved to joint stock corporations: Borsa Italiana S.p.A. ("Borsa Italiana"), for instance, runs the Telematico the Bond and Government Securities Market (MOT), the Traditional Options Market (MPR), the Nuovo Mercato, the Mercato Ristretto, the Italian Derivatives Market (IDEM) and the Interest Rate and Derivatives Market (MIF). All the Italian regulated markets are entered into a list kept by CONSOB. This Authority continues to exercise supervisory control over listed companies, intermediaries and the markets, as well as the correctness and intelligibility of the information required of companies issuing listed securities and other forms of solicitation relating to securities. CONSOB is also empowered to verify compliance with the legislation regarding insider trading and to report infringements to the public prosecutors.

Intermediaries. Securities market participants in Italy include (subject to partially different conditions) investment firms such as SIMs, financial intermediaries the persons entered in the Special Register and banks. These intermediaries are under the control of CONSOB and Bank of Italy, and have to observe prudential regulations governing, among other matters, the professional brokerage of and dealing in securities, underwriting, asset management, retail distribution of securities and advisory services regarding investments in securities.

Mutual Funds. A specific category of authorized intermediaries, SGR (*società di gestione del risparmio*) and SICAV (*società di investimento a capitale variabile*) are in charge of the promotion, and the organization and the property of mutual funds and of mutual funds and SICAVs management (even if constituted by other subjects). The rules concerning the investment limits of mutual funds, with respect to single sectors or companies and overall minimum portfolio diversification, have been set by the Ministry of Treasury. The reform introduced by the Consolidated Securities Law allows SGRs, supervised by Bank of Italy for those aspects concerning financial stability and risk management policies, to operate in the sector of asset management.

Corporate governance. A section of the Consolidated Securities Law is devoted to the corporate governance of listed companies. This section contains, among others, new provisions concerning both voluntary and mandatory tender offers; in particular, the disclosure of interests held by the shareholders, of interlocking interests and of shareholder agreements has been made more stringent. The board of auditors has been given broader powers to examine the management of the company, and further measures to protect minority shareholders have been added. The Consolidated Securities Law introduces a special system for the voting of proxies at the shareholders' meetings of listed companies and for the solicitation and collection of such proxies; CONSOB regulations set forth methods and procedures.

In particular, the regulations governing public offers provides for the compulsory launch of a public offer for all ordinary outstanding shares of any Italian company listed on an Italian regulated market when the shareholding exceeds a certain limit (30% of the target company's share capital). This rule applies to any purchase of shares (with certain exceptions set out in a CONSOB regulation) completed directly or through subsidiaries or acting in concert with third parties.

The compulsory public offer for all shares may be waived when the shareholding threshold is preceded by a partial offer (at least 60% of the ordinary shares) and CONSOB approves the exemption according to certain conditions (including the approval of minority shareholders).

In 1999 a committee, coordinated by the Chairman of Borsa Italiana and composed of representatives of Italian banks, industries, insurance companies and associations of issuers and investors, prepared a Code of self-regulation (the "Code"), a model of corporate governance that emphasizes the role and the responsibilities of the Board of Directors and ensures a balanced division of power among the executive and non - executive members of the Board, an adequate level of the auditing functions and a correct relation with all the shareholders.

The importance of the Code, whose rules are not compulsory, was immediately appreciated by the market and in January 2000, the Board of Directors of Sanpaolo IMI adopted the Code. Borsa Italiana now requires all companies applying for listing on Telematico to submit a statement comparing their corporate governance model to the model of the Code.

ITEM 2. DESCRIPTION OF PROPERTY

Sanpaolo IMI owns the headquarters building of Sanpaolo IMI and the Sanpaolo IMI Group, located in Turin, and a secondary office located in Rome. In addition, Sanpaolo IMI owns or leases other properties in Italy and abroad which are used for Group operations or leased to third parties. In 1998, Sanpaolo IMI announced that it was studying the prospect of spinning off certain property assets in order to focus on its core banking and financial services business and to allow investors to focus on these underlying businesses.

In accordance with this plan, in October 1999, Sanpaolo IMI span off a portfolio of real estate assets to Beni Stabili.

See Item 1 “Description of Business – Recent Developments”.

ITEM 3. LEGAL PROCEEDINGS

Sanpaolo IMI Group is subject to certain claims and is a party to a large number of legal proceedings relating to the normal course of its business. Although it is difficult to determine the outcome of such claims and proceedings with certainty, Sanpaolo IMI believes that liabilities related to such claims and proceedings are unlikely to have, in the aggregate, a material adverse effect on the Group's financial condition or results of operations.

- On April 29, 1998, an investigating judge of the court of Turin issued an order requesting delivery of documents relating to the preparation of Sanpaolo's 1996, first half of 1997, and 1997 financial statements in connection with an inquiry as to whether the 1996 and first half 1997 financial statements were correctly prepared in compliance with Italian law. This investigation concerned Sanpaolo's directors, statutory auditors and independent auditors in office when the financial statement reviewed by the judge were prepared, approved and audited. After the investigation, the proceedings concerning six directors were dismissed during 1999. Proceedings were definitively closed on February 24, 2000 by decree of the judge of the Turin court following the request by the investigating magistrate, finding no grounds for charges.

- In March 1998, CONSOB requested certain information concerning the criteria used by Sanpaolo in determining value adjustment and provisions for loans in its 1997 financial statements, as well as detailed analysis of Sanpaolo IMI's loan portfolio. Proceedings were concluded with the payment by Sanpaolo IMI of Lire 66 million (Euro 34,086).

- On April 22, 1999 Sanpaolo IMI received notification that Bank of Italy, acting as the antitrust authority for the banking sector, started an investigation to ascertain the occurrence of meetings among 13 banks, including Sanpaolo IMI, leading to alleged agreements or concerted practices for the establishment of interest rates which would violate antitrust provisions, due to their potential impact on competition in the banking sector. On January 18, 2000, following these investigations, Bank of Italy set fines on the participating banks. In partial recognition of its defence Bank of Italy set Sanpaolo IMI's fine at Lire 3,560 million (Euro 1,838,731) for one of the charge originally made (relating to services exempt from Italian Value Added Tax).
  The judgement was not appealed and the fine has been paid.

- With regards to taxation proceedings, Fideuram Vita, a consolidated subsidiary of the Group, is currently appealing in front of the relevant court, against a judgment of the taxation tribunal concerning tax assessments levied by the government tax authorities with respect to income taxes for the fiscal years from 1985 to 1990. For a detailed description of this taxation proceeding see Note 17 in the Notes to Consolidated Financial Statements.

- Between February 1999 and March 2000, Guardia di Finanza, the Italian Tax Authority, after a general tax audit on Sanpaolo IMI, set out certain items with regard to income taxes paid during the period between 1992 and 1998.Their reports were forwarded to the appropriate tax offices which will have to evaluate the seriousness of these items and, in the event, proceed with the tax assessment. The result of such tax audit in any case would not have significant effects on the Group's results, given that the provision for risks and charges covers both current tax charges and any requests by the tax authorities for current or potential tax disputes.

ITEM 4. CONTROL OF REGISTRANT

In January 1992, Sanpaolo became a limited company controlled by a charitable foundation ("the Foundation"), and its shares were subsequently listed on Telematico and traded on London's SEAQ International and on the National Association of Securities Dealers, Inc.'s PORTAL system in the form of ADSs, each representing four ordinary Sanpaolo shares. The majority shareholder remained the Foundation, through its holding company Gruppo Bancario Sanpaolo S.p.A. ("the Holding Company"), which retained 78.58% of Sanpaolo. The Holding Company gradually reduced its stake in Sanpaolo over the years (principally through the exchange of shares in merger operations).

On January 1997, the Managing Board of the Foundation and the board of directors of the Holding Company, which held 65.6% of the shares of Sanpaolo at the time, approved the general guidelines of the privatization plan of Sanpaolo. The objective of the privatization was to develop a broad shareholder base and a group of stable shareholders (the "Stable Shareholders"). The group of Stable Shareholders was designed to promote continuing stability in the ownership of Sanpaolo, reinforcing the continuation of management focus on long-term shareholder value.

The privatization plan was implemented in two stages: the 1997 private sale and the 1997 combined offering.

In the first component of the 1997 private sale, 19% of the Sanpaolo shares held by the Holding Company were privately sold to the six Stable Shareholders. These shareholders:

- are not linked to each other by any voting agreement or similar arrangements;
- have limited their voting rights to 5%;
- are subject to four-year lock-up and standstill agreements;
- have board representation.

In the second component of the 1997 private sale, Holding Company sold 3% of the Sanpaolo shares to four medium-term financial investors: 1% to INA, 1% to HDI-Hannover, and 0.5% to each of Crédit local de France S.A. and Crédit Communal de Belgique S.A. (who are collectively known as the Dexia Group). These medium-term investors do not have voting rights limitations or board representation but were subject to a six-month lock-up agreement.

The 1997 combined offering consisted of an offering of an additional approximately 31% of Sanpaolo shares to the public in Italy (including employees) and to institutional investors in Italy and the rest of the world. As a result the Holding Company reduced its 65.6% interest in Sanpaolo to 20.5%. The Holding Company's shares in Sanpaolo were transferred to Compagnia di Sanpaolo S.r.l ("Compagnia di Sanpaolo", a company wholly owned by the Foundation) in February 1998.

The Stable Shareholders

On April 23, 1997, Holding Company executed substantially similar agreements with each of the six Stable Shareholders: Banco Santander Central Hispano ("BSCH") (whose aggregate ownership totalled 6.8% of the shares of Sanpaolo after the private sale); IFI-Istituto Finanziario Industriale S.p.A. ("IFI") jointly with IFIL-Finanziaria di Partecipazioni S.p.A. ("IFIL") (5%); IMI (5%); Banca Monte dei Paschi di

Siena S.p.A. ("Monte dei Paschi") (3%); Reale Mutua Assicurazioni ("Reale Mutua") (3%) and Kredietbank N.V. ("Kredietbank") (2%). In February 1998, the Sanpaolo shares owned by the Holding Company were transferred to Compagnia di Sanpaolo and Compagnia di Sanpaolo has since then replaced the Holding Company in the agreements with the Stable Shareholders.

These agreements are effective until 15 days prior to Sanpaolo general meeting called to approve the financial statements for the fiscal year ending December 31, 2000. Pursuant to these agreements, each stable shareholder has undertaken:

(i) not to transfer, grant any rights in, pledge or otherwise encumber Sanpaolo shares held, subject to certain exceptions;

(ii) not to increase its holdings, either direct or indirect, to more than 5% of Sanpaolo shares; however, provided that, as long as voting rights are not exercised with respect to more than 5% of Sanpaolo shares, each Stable Shareholder may own up to 2.5% of additional Sanpaolo shares if such additional Sanpaolo shares are owned pursuant to rights outstanding at January 1, 1997 (as was the case with BSCH), or the purchase of such additional Sanpaolo shares is related to broker/dealer and proprietary trading activities, or syndicate activities in connection with the combined offering; and

(iii) not to enter into any voting agreements or similar consensus arrangements, or agreements relating to the transfer of the Sanpaolo shares.

Also, Compagnia di Sanpaolo is required by the agreements with each of the stable shareholders to limit its voting rights to 5% of the Sanpaolo shares with respect to the appointment of directors and approval of financial statements until after Sanpaolo general meeting called to appoint the new Sanpaolo Board replacing the expiring Sanpaolo Board serving for the three-year period 1998 to 2000. In addition, Compagnia di Sanpaolo has also undertaken, subject to certain exceptions, until (except as stated below in clause (iv)) 15 days prior to the Sanpaolo general meeting called to approve the financial statements for the fiscal year ending December 31, 2000:

(i) not to increase its equity interest in Sanpaolo, whether directly or indirectly, other than in relation to cash management, management of its trading portfolio or activities in connection with the combined offering;

(ii) not to transfer, grant any rights in, pledge or otherwise encumber 40,799,643 Sanpaolo shares (representing, at the date of the agreement, 5% of Sanpaolo shares) except for transfers to the Foundation or controlled companies;

(iii) not to enter into any voting agreements or similar consensus arrangements, or agreements relating to the transfer of the 40,799,643 Sanpaolo shares, subject to certain exceptions relating to stabilization in connection with the combined offering; and

(iv) not to transfer, grant any right in, pledge or otherwise encumber the balance of its holdings of Sanpaolo shares (except for transfers to the Foundation or controlled companies) until June 3, 1998, at which time Compagnia di Sanpaolo may sell the balance of such holdings either in a public offering or in a private sale provided that, in the case of a private sale, the acquiror does not acquire more than 2% of Sanpaolo shares and following such sale does not own directly or indirectly more than 3% of Sanpaolo shares.

Other than the provisions regarding the sale of Sanpaolo shares to each Stable Shareholder, the Stable Shareholders agreements shall cease to be effective in the event of a third party tender offer for, or a third party holding directly or indirectly a number of Sanpaolo shares equal to, the greater of (i) the number of Sanpaolo shares owned by Compagnia di Sanpaolo or (ii) 15% of Sanpaolo shares.

Following the Sanpaolo IMI merger, the Stable Shareholders' agreements described above continue to be effective, and all the provisions contained in such agreements which refer to Sanpaolo and Sanpaolo shares now refer to Sanpaolo IMI and Sanpaolo IMI Shares.

Sanpaolo IMI Ownership

The following table sets forth, as of June 1, 2000, the Sanpaolo IMI shareholders holding 2% or more of the outstanding Sanpaolo IMI Shares, with their corresponding interests in Sanpaolo IMI.

COMPAGNIA DI SANPAOLO S.r.l.	16.15%
BSCH (as a Group)	7.03%
MONTE DEI PASCHI DI SIENA (as a Group)	6.21%
GIOVANNI AGNELLI E C. (as a Group)	4.99%
FONDAZIONE CARIPLO	2.77%
ENTE CASSA DI RISPARMIO DI FIRENZE (as a Group)	2.59%
SOCIETA' REALE MUTUA DI ASSICURAZIONI	2.06%
LEHMAN BROTHERS INTERNATIONAL (EUROPE)	2.00%
TOTAL	43.8%

The following table shows certain information at December 31, 1999, about the direct and indirect ownership of the Bank's Shares by the Bank's directors and executive officers as a group and by the members of the Board of Statutory Auditors as a group.

Owner	**Number owned**	**% of class**
Directors and executive officers as a group (22 person)	4,460,591	0.32
Statutory Auditors as a group (5 person)	-	-

ITEM 5. NATURE OF TRADING MARKET

Securities Trading in Italy

Sanpaolo IMI Shares are listed in Milan and New York, respectively on Telematico and NYSE, and are traded on London's SEAQ International.

As specified above (see Item 1, "Description of Business-The Italian Banking System: Supervision and Regulation- Securities Market Control and Legislation"), Borsa Italiana is the joint stock company organizing and managing the regulated markets for financial instruments. Borsa Italiana replaced the administrative body Consiglio di Borsa and in January 1998 was finally privatized.

The ordinary shareholders' meeting of the market company is entitled, according to Section 62, Legislative Decree n. 58/1998, to issue rules establishing the condition and procedures for the admission, exclusion and suspension of market participants and financial instruments to and from trading, and those for the conduct of trading and any obligations of market participants and issuers. The shares of Borsa Italiana are currently owned by financial intermediaries and primarily banks, which purchased them in an auction regulated by ministerial decree. Sanpaolo IMI holds as of June 2000, through its subsidiaries, a 7.5% share of the capital of Borsa Italiana.

According to current Borsa Italiana regulations, a three-day rolling cash settlement period applies to all trades of equity securities in Italy. Any person, through an authorized intermediary, may purchase or sell listed securities . An "official price", calculated for each security as a weighted average of all trades effected during the trading day and a "reference price", calculated for each security as a weighted average of the last 10% of trades effected during such day are reported daily. Each of these prices is net of the quantity traded using the cross-order function.

In particular market conditions, Borsa Italiana may, with reference to markets, categories of financial instruments or individual instruments:

- Prolong the duration or delay the start of one or more phases of trading;
- Interrupt, where possible, continuous trading with the simultaneous reactivation of opening auction;
- Modify the trading conditions; and
- Suspend or reactivate trading;

Shares ordinarily may be traded only in minimum lots of prescribed size (or multiples thereof) determined for the Sanpaolo IMI Shares. The currently prescribed minimum lot for the Sanpaolo IMI Shares is 250. Lots smaller than the prescribed minimum may be traded subject to certain rules.

The shares are included in the index of the 30 largest companies on Telematico in terms of capitalization and liquidity ("MIB30").

Since February 19, 1996, call and put options are traded on the Italian derivatives market which include the Sanpaolo IMI Shares.

Clearance and Settlement of Sanpaolo IMI Shares

The settlement of stock exchange transactions is facilitated by a joint stock company (Monte Titoli S.p.A., “Monte Titoli”) which carries out the activity of central depository; the company's shares are currently owned by the Bank of Italy and certain of the major Italian banks and financial institutions. Most Italian banks, brokers and securities dealers have securities accounts as participants with Monte Titoli.

The Legislative Decree No. 213/98, regulating the adoption of the Euro has also established that securities listed on regulated markets could no longer be represented by physical certificates. These provisions were effective as of October 5, 1998, for the securities previously entered into a centralized securities depositary system and, as of January 1, 1999, for all other securities.

As a consequence of this, all listed securities must be actually entered into central depositories, and the operations concerning them have to be done by book entry. For this reason, beneficial owners of Sanpaolo IMI Shares must hold their interests through specific accounts with any of the participants in Monte Titoli. The beneficial owners of Sanpaolo IMI Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Sanpaolo IMI Shares through such accounts.

Beneficial owners of Sanpaolo IMI Shares may also hold their interests through Euroclear and Clearstream and may transfer the Sanpaolo IMI Shares, collect dividends and exercise other shareholders' rights through Euroclear or Clearstream. Investors may request Euroclear or Clearstream to transfer their Shares to an account of such holders with a participant having an account with Monte Titoli.

Performance of Sanpaolo IMI share prices

For most of 1999, the Sanpaolo IMI share price followed the same negative trend as the rest of the Italian banking sector. During the year it declined by 8.1%. In the first months of 2000, however, there was a substantial improvement. As of June 21, 2000, the reference price (calculated as the average weighted price of the final 10% of shares traded) was Euro 16.90, an increase of 26% from the end of 1999. In the same period, the MIB Bancario (the Italian banking sector index) rose by 7.3% and the MIB 30 index rose by 8%.

The principal trading market for the Sanpaolo IMI Shares is on Telematico under the symbol “SPI”. The Sanpaolo IMI Shares and ADSs are also traded on SEAQ International, the London Stock Exchange's quotation system for equity securities of non-UK incorporated companies. Sanpaolo IMI ADSs, each representing two Sanpaolo IMI Shares, have been listed on the NYSE under the symbol “IMI” since November 2, 1998. Morgan Guaranty Trust Company of New York is Sanpaolo IMI’s Depositary and issues the American Depositary Receipts (“ADRs”) evidencing ADSs.

The following table lists the reported high and low prices of Sanpaolo IMI Shares on Telematico from January 2, 1998 through October 30, 1998, the high and low prices of Sanpaolo IMI Shares on Telematico from November 2, 1998 through June 8, 2000 and the high and low prices of Sanpaolo IMI ADSs on the NYSE from November 2, 1998 through June 8, 2000. From January 4, 1999, the Sanpaolo IMI Shares began trading on Telematico in euro. The prices for 1998 have been restated (based on the Fixed Euro/Lira

Exchange Rate of Lire 1,936.27 = euro 1 established on December 31, 1998) as if the Sanpaolo IMI Shares had been trading in euro since the beginning of the period.

	Telematico (1) (2)		NYSE (2)	
	High	Low	High	Low
1998	(Euro)		(US$)	
First quarter	13.13	8.98	-	-
Second quarter	15.43	12.58	-	-
Third quarter	16.77	9.66	-	-
Fourth quarter (through October 30, 1998)	12.57	10.21	-	-
Fourth quarter (November 2, 1998 to December 31, 1998)	14.60	12.39	34	29 4/16
1999				
First quarter	16.30	13.24	39 12/16	30
Second quarter	14.80	11.98	32 14/16	25 13/16
Third quarter	13.49	10.92	28 12/16	24 5/16
Fourth quarter	13.89	11.42	28 6/16	24 6/16
2000				
First quarter	16.53	11.35	31 8/16	22 4/16
Second quarter (through June 8, 2000)	17.39	14.06	32 6/16	26 14/16

(1) Prices from January 2, 1999 through November 2, 1999 have been restated to reflect the spin-off of Beni Stabili S.p.A.
(2) Prices from November 2, 1999, reflect the spin – off of Beni Stabili S.p.A.

As of June 20, 2000, there were a total of 6,188,398 ADSs outstanding, representing approximately 1.1% of Sanpaolo IMI Shares; as of the same date there were 22 holders of record of Sanpaolo IMI ADSs.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Exchange Controls

There are no exchange controls in Italy. Residents of Italy may hold foreign currency and foreign securities of any kind, within and outside Italy. Non-residents may invest in Italian securities without restriction and may export cash, instruments of credit and securities, in both foreign currency and Lire, representing interest, dividends, other asset distributions and the proceeds of dispositions.

Certain procedural requirements, however, are imposed by law. Investments, disinvestments and any transfer of cash or bearer securities to and from Italy, whether by residents or non-residents of Italy, for amounts exceeding Lire 20 million (Euro 10,329) must be made through a banking or other authorized intermediary, including banks located outside Italy. Non-corporate residents of Italy effecting transfers to and from Italy in excess of Lire 20 million (Euro 10,329) in one year without using domestic authorized banks and other financial intermediaries must disclose them in their annual tax declarations. For corporate residents there is no requirement for such declaration because such information is contained in their financial statements. Non-corporate residents must also give details in their tax declarations of financial assets held outside Italy at the end of the fiscal year and of transfers in excess of Lire 20 million (Euro 10,329) to, from, within and between foreign countries in connection with such assets during the fiscal year. No declaration is required from such non-corporate residents in respect of foreign investments and foreign income-earning assets that are exempt from income tax or subject to withholding tax in Italy.

Authorized banks, financial and trust companies and other professional intermediaries are required to maintain records of transfers of cash and bearer securities in excess of Lire 20 million (Euro 10,329) into and out of Italy made on behalf of individuals, non-profit entities and business enterprises. Such records must be kept for five years and may be inspected at any time by Italian tax and judicial authorities .

There can be no assurance that the present regulatory, environment in or outside Italy will endure or that particular policies presently in effect will be maintained, although Italy is required to maintain certain regulations and policies by virtue of its membership in the EU and other international organizations and its adherence to various bilateral and multilateral international agreements.

Foreign Investment

There are no limitations imposed by Italian law on the rights of non-residents of Italy or foreign persons to hold or vote shares other than those limitations described below, which apply equally to all owners of such shares. The Sanpaolo IMI By-laws do not provide for any limitations.

Securities regulations. Pursuant to Italian securities laws, any holding of any direct or indirect interest in excess of 2%, 5%, 7.5%, 10%, and higher multiples of 5%, in the voting shares of a listed company must be notified to CONSOB and the company within the 5 trading days following the acquisition (the same communication has to be done for the reduction of such interest below the above specified percentages). The voting rights relating to the shares for which the required notifications have not been given may not be exercised. Cross-ownership between listed companies may not exceed 2% of their respective voting shares. Likewise, cross-ownership between a listed company and an unlisted company may not exceed 2% of the voting shares of the listed company or 10% of the voting shares of the unlisted company. The 2% threshold may be increased to 5% pursuant to an agreement between the companies approved by the ordinary shareholders meeting of the two companies. Any shares held in excess of such thresholds may not be voted and must be sold by one of the companies as specified by applicable law. Shares held through subsidiaries, fiduciaries or intermediaries are taken into account for the purposes of calculating these ownership thresholds. However, those provisions on cross-ownership do not apply when a controlled company purchases the shares of a controlling company, within certain limits provided by law and following the approval of the controlled company ordinary shareholders meeting.

Furthermore, any agreement, in whatever form, intended to regulate the exercise of voting rights in a listed company (or in the company or companies controlling a listed company), together with any of its subsequent amendments, renewal or termination, must be: (i) notified to CONSOB, within five days from its execution; (ii) disclosed to the public through the publication, in abstract form, in one Italian newspaper having general circulation, within ten days from its execution; and (iii) deposited in the companies' Register at the site where such listed company has its registered office, within 15 days from its execution.

The same requirements are also mandated for agreements, in whatever form, that (a) impose an obligation of prior consultation for the exercise of voting rights in a listed company and in its controlling companies; (b) contain undertaking limiting the transferability of the shares and other securities granting rights for the acquisition or subscription of the shares; (c) provide for the acquisition of the shares and securities hereon; and (d) contemplate or cause the exercise, also in association with other person, of dominant influence on the listed company that issued the shares and on its controlled entities.

Based on the Consolidated Securities Law, the duration of the above mentioned agreements cannot exceed three years. Each party to the agreement can withdraw from such an agreement by giving a six month notice, unless otherwise provided in the agreements.

Banking regulations. The requests for the purchase of more than 5% of the capital of an Italian bank, made by any national of a State other than an EU Member State, that applies discriminatory measures with regards to similar acquisitions by an Italian national must be reported to the Treasury Minister. The President of the Italian Council of Ministers may deny such authorization upon the Treasury Minister's proposal.

For the other purchase requirements or limitations provided for Italian banking legislation, see Item 1. "Description of Business-The Italian Banking System: Supervision and Regulation-Participations in the Share Capital of a Bank".

Antitrust regulations. In accordance with Italian antitrust laws, Bank of Italy, upon consultation with the Italian antitrust authority, is required to prohibit acquisitions of sole or joint control over a bank that would create or strengthen a dominant position in the domestic market or a significant part thereof. However, if the acquiring party and the party to be acquired surpass certain turnover thresholds, the antitrust approval for the acquisition falls within the exclusive jurisdiction of the EU Commission.

ITEM 7. TAXATION

The following summary of Italian tax matters discusses the principal consequences that are likely to be material for US investors in general, but does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase Shares or ADSs. The summary does not discuss the treatment of Sanpaolo IMI Shares or ADSs that are held in connection with a permanent establishment or fixed base through which a beneficial owner carries on business or performs personal services in Italy or persons owning 10% or more of the voting shares of Sanpaolo IMI.

The summary is based upon tax laws and practice of the United States and Italy as in effect on the date of this Annual Report, which are subject to change. Prospective investors in Shares or ADSs should consult their own advisors as to the US, Italian or other tax consequences of the purchase, beneficial ownership and disposal of Shares or ADSs, including, in particular, the effect of any state or local tax laws.

For purposes of the summary, beneficial owners of ADRs who are considered residents of the United States for purposes of the current income tax convention between the United States and Italy (the "Income Tax Convention"), and are not subject to an anti-treaty shopping provision that applies in limited circumstances, are referred to as "US owners". Beneficial owners that are citizens or residents of the United States, corporations organized under US law, and US partnerships, estates or trusts (to the extent their income is subject to US tax either directly or in the hands of partners or beneficiaries) generally will be considered to be residents of United States under the Income Tax Convention. Special rules apply to US owners that are also residents of Italy.

For purposes of the Income Tax Convention, the current estate tax convention between the United States and Italy (the "Estate Tax Convention") and the United States Internal Revenue Code of 1986, beneficial owners of ADRs evidencing ADSs will be treated as the beneficial owners of the Shares represented by those ADSs.

Taxation of Dividends

Italian tax considerations. Italian law provides for the withholding of income tax at a 27% rate on dividends paid by Italian companies to shareholders who are not residents of Italy for tax purposes. Reduced rates (normally 15%) apply to non-resident shareholders who are entitled to, and comply with, procedures for claiming benefits under an income tax convention. Italy has concluded income tax conventions with over 60 foreign countries, including all of the members of the European Community, Argentina, Australia, Brazil, Canada, Japan, New Zealand, Norway, Switzerland, United States and some countries in Africa, Middle East and Far East.

Under the Income Tax Convention, dividends derived and beneficially owned by US owners are subject to Italian withholding tax at a reduced rate of 15%. In the case of dividends derived by a US partnership, the reduction of the withholding tax under the treaty is only available to the extent such dividends are subject to US tax in the hands of the partners.

As to dividends derived in respect of shares held in the centralized deposit system managed by Monte Titoli, instead of the 27% withholding tax mentioned above, a substitute tax, at the same 27% rate, applies. Such substitute tax is levied by the custodian of the shares.

Since the Shares underlying Sanpaolo IMI ADRs are sub-deposited with Monte Titoli, no withholding tax will be applied by Sanpaolo IMI directly, and the substitutive tax will be applied by the custodian. The Depositary's instructions specify the procedures that U.S. ADR holders must follow in order to obtain reduction of the rate of the substitutive tax at the level of 15% pursuant to the Treaty.

According to the Italian law, in order to obtain a reduced rate under the Treaty, the following procedure must be followed. The Custodian must receive, in a timely manner (in accordance with the Custodian's requirements) prior to the dividends payment date:

(i) a declaration of the ADR holder containing all the data that identifies the beneficial owner of the Shares (if being a different person of the ADR holder),

(ii) a request of the beneficial owner for the application of the Income Tax Convention containing a declaration that indicates the existence of all conditions required by the Income Tax Convention, as well as the necessary elements to determine the applicable Income Tax Convention withholding tax rate, together with a statement that such beneficial owner does not maintain a permanent establishment or a fixed base in Italy; and

(iii) a certification, to be obtained from the U.S. Internal Revenue Service, that the beneficial owner is a U.S. resident for the purpose of the Income Tax Convention (such certificate will be effective until March 31 of the year following submission). The time for processing requests for certification by the Internal Revenue Service normally is six to eight weeks. Accordingly, in order to be eligible for the procedure described below, U.S. owners should begin the process of obtaining certificates as soon as possible after receiving instructions from the depositary on how to claim the 15% reduced rate of substitutive tax under the Income Tax Convention.

The custodian may advise the depositary, and the depositary will advise US holders, of an additional limited period in which the custodian is willing to receive claims for applicability of the substitutive tax at the 15% reduced treaty rate.

If the custodian does not receive the required documentation on a timely basis, or if in the custodian's judgment the documentation fails to satisfy the requirements of Italian law for any reason, US owners will not be entitled to obtain the reduced treaty rate at source and instead must claim a refund of 12% of the dividend (representing the difference between the 27% ordinary rate and the 15% reduced treaty rate) directly from the Italian tax authorities. Expenses and extensive delays have been encountered by US residents seeking refunds from the Italian tax authorities.

Italian law provides an alternative mechanism under which non-resident shareholders can claim a refund of up to four-ninths of Italian withholding taxes on dividend income by establishing to the Italian tax authorities that the dividend income was subject to income tax in another jurisdiction in an amount at least equal to the total refunds claimed. US owners should consult their own tax advisers concerning the possible availability of these additional refunds, which traditionally have been payable only after extensive delays.

Distribution of additional Shares to beneficial owners with respect to their ADSs that are made as part of a pro rata distribution to all shareholders of Sanpaolo IMI generally will not be subject to Italian tax.

Italian companies are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders in connection with the payment of dividends. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives.

In the case of ADSs owned by non-Italian residents, Sanpaolo IMI understands that the provision of information concerning the depositary, in its capacity as holder of record of the Shares, will satisfy these requirements. Sanpaolo IMI will be required to provide information concerning non-resident beneficial owners of Shares, however, to the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax convention, and claims for such benefits therefore must be accompanied by the required information.

Taxation of Capital Gains

Italian Tax Considerations. The Italian capital gains tax is not applicable if (i) the seller is a non-resident without a permanent establishment in Italy, (ii) the shares are listed on a stock exchange and (iii) during any 12-month period the seller does not dispose of shares that comprise a "qualified shareholding". For shares listed on a stock exchange a "qualified shareholding" consists of shares which entitle the holder to exercise more than 2% of the voting rights of the company or represent more than 5% of the share capital.

Since the Shares are listed, capital gains realized on the sale of non-qualified shareholdings in Sanpaolo IMI by non-resident holders without a permanent establishment in Italy are not subject to capital gains tax. In addition, the exemptions from capital gains tax that are available pursuant to an income tax convention apply. The capital gains rate applicable to sales of qualified shareholdings equals 27%.

Other Italian Taxes

Estate and Gift Tax. Italian estate and gift tax is normally payable on the death of, or a gift by, a beneficial owner of Shares or ADSs. Under the Estate Tax Convention, a credit for the amount of any estate tax imposed by Italy and attributable to the Shares or ADSs will, subject to certain limitations, be allowed against the tax imposed in respect of the Shares or ADSs by the United States on the estate of a deceased person who, at the time of death, was a national of, or domiciled in the United States. There is currently no gift tax convention between Italy and the United States.

Transfer Tax. No transfer tax is payable upon the transfer of Shares through an officially recognized stock exchange. Transfers of Shares or ADSs outside an officially recognized stock exchange are also exempted from the payment of transfer tax provided that the parties entering into the agreement pursuant to which the transfer takes place are:

(i) all non-residents,
(ii) all banks, SIMs or stockbrokers, or
(iii) banks, SIMs or stockbrokers, on the one hand, and non residents or investment funds, on the other hand.

In any other case, transfer tax is currently payable at the following rates:

- Lire 140 (Euro 0.07) per Lire 100,000 (Euro 51.65) (or fraction thereof) of the price at which the Shares or ADSs are transferred when the transfer is made between private individuals directly or through an intermediary that is not a bank, SIM or stockbroker;

- Lire 50 (Euro 0,03) per Lire 100,000 (Euro 51.65) (or fraction thereof) of the price at which the Shares or ADSs are transferred when the transfer is made either (i) between a bank and a private individual or (ii) between private individuals through a bank, SIM or stockbroker.

The change of a depository (e. g., Euroclear, Clearstream or Monte Titoli) not involving a transfer of the ownership of the transferred Shares or ADSs will not trigger the Italian transfer tax.

Apart from the above exemptions and exclusions, there are questions regarding applicability of the transfer tax to the transfer of ADRs, since ADRs are not shares themselves. In general, with respect to US owners, the transfer tax will not be applicable on transfers of Sanpaolo IMI Shares or ADRs. However, in the case of transfers which are not executed on an official stock exchange and are entered into with an Italian counterparty other than a bank or other authorized financial intermediary or an investment fund, it is advisable that US owners consult their own tax advisors concerning the applicability of this transfer tax. Deposits and withdrawals of Shares in return for ADSs by non-Italian residents will not be subject to the transfer tax.

ITEM 8. SELECTED FINANCIAL DATA

The financial information set forth below, except for the pro-forma 1998 and 1997 information, has been selected from, and should be read in conjunction with, the audited Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report, and has been reclassified to reflect the Group's management analysis of the results of operations of the Sanpaolo IMI Group.

The Consolidated Financial Statements have been prepared in accordance with Italian GAAP, which differs in certain significant respects from US GAAP. For a summary of the significant differences between Italian GAAP and US GAAP see Note 31 to the Consolidated Financial Statements.

The selected financial data for each of the three years ended December 31, 1997 are extracted or derived from the consolidated financial statements of Sanpaolo only, and have been reclassified to reflect management's analysis of the results of operations of the Sanpaolo IMI Group.

The Sanpaolo consolidated financial statements for the three years ended December 31, 1997 and the Sanpaolo IMI Consolidated Financial Statements for the two years ended December 31, 1998 and 1999 have been audited by Arthur Andersen S.p.A., independent auditors.

The unaudited pro-forma 1997 consolidated statement of income and consolidated balance sheet information were prepared as if the merger between Sanpaolo and IMI had occurred on January 1, 1997, in order to make such financial information comparable to the audited Consolidated Financial Statements for the year ended December 31, 1998, which were prepared on the basis that the merger between Sanpaolo and IMI occurred on January 1, 1998.

The unaudited pro-forma 1999 consolidated statements of income and consolidated balance sheet were prepared with the exclusion of Crediop from the scope of consolidation. The pro-forma statements have been prepared eliminating from every caption of the 1998 consolidated financial statements the contribution made by Crediop and its subsidiaries, consolidated line–by–line basis; the investment in Crediop was then valued under the equity method. After application of this method the pro-forma consolidated net income and shareholders' equity remain the same as the official ones, as published.

Reclassified consolidated statement of income	Years ended December,						
	1999	1998 (pro forma) (unaudited)	1998	1997 (pro forma) (unaudited)	1997	1996	1995
	in millions of Euro						
Interest income and similar revenues (1)	5,981	8,642	9,981	11,802	8,886	10,638	10,949
Interest expense and similar charges (2)	(3,934)	(6,219)	(7,330)	(9,116)	(6,753)	(8,246)	(8,528)
Net interest income	2,047	2,423	2,651	2,686	2,133	2,392	2,421
Net commission & other dealing revenues (3)	2,066	1,744	1,738	1,211	919	637	551
Profits/(losses) on financial transactions & investments income (4)	251	316	324	282	226	527	208
Profits/(losses) of companies carried at equity and dividends on equity investments (5)	205	173	108	84	22	23	40
Net interest & other income	4,569	4,656	4,821	4,263	3,300	3,579	3,220
- payroll (6)	(1,534)	(1,526)	(1,543)	(1,629)	(1,478)	(1,542)	(1,408)
- other administrative costs (7)	(763)	(769)	(780)	(781)	(512)	(526)	(508)
- indirect taxes & sinilar dues (8)	(169)	(171)	(172)	(199)	(238)	(238)	(212)
Administrative costs	(2,466)	(2,466)	(2,495)	(2,609)	(2,228)	(2,306)	(2,128)
Other operating income, net (9)	175	184	185	225	191	162	187
Adjustments to intangible and tangible fixed assets (10)	(293)	(302)	(307)	(327)	(281)	(302)	(250)
Operating income	1,985	2,072	2,204	1,552	982	1,133	1,029
Provisions for risks and charges (11)	(81)	(100)	(125)	(71)	(52)	(34)	(20)
Adjustments to loans and provisions for guarantees and commitments, net (12)	(313)	(531)	(531)	(759)	(697)	(504)	(671)
Adjustments to financial fixed assets, net (13)	(87)	(67)	(67)	(136)	(131)	(85)	(12)
Income before extraordinary items	1,504	1,374	1,481	586	102	510	326
Net extraordinary income (14)	294	120	159	167	139	(9)	23
Income before taxes and minority interest	1,798	1,494	1,640	753	241	501	349
Income taxes (15)	(685)	(534)	(630)	(295)	(114)	(191)	(116)
Change in reserve for general banking risks (16)	(1)	(8)	(8)	(6)	(5)	-	(3)
Net income attributable to minority interests (17)	(62)	(43)	(93)	(68)	(36)	2	(2)
Net income	1,050	909	909	384	86	312	228

The following Item numbers refer to the Item numbers shown in the audited Consolidated Statements of Income Sanpaolo IMI for the years ended December 31, 1998 and 1999 to the Sanpaolo consolidated statements of income for the three years ended December 31, 1997 and to the pro-forma unaudited consolidated financial statements of Sanpaolo IMI for the two years ended December 31, 1997 and 1998 as the case may be.

(1) The line Item refers to Item 10. “Interest income and similar revenues” for the years ended December 31, 1998 and pro-forma 1998 and 1997. For the year ended December 31, 1999 it refers to the sum of Item 10. “Interest income and similar revenues” together with Item 10.a) “Dividends from equity investments under 20% of stake, treated as interest”;

(2) The line Item refers to Item 20. “Interest expense and similar charges”

(3) The line Item refers, for the two years ended December 31, 1999, 1998 and pro-forma 1998 to the sum of Item 40. “Commission income” plus Item 50. “Commission expense” plus Item 70.a) “Income from sale of merchant banking activities, gains of sale of leased asset, other income” which is made up of the following components of Item 70. “Other operating income”: income from sale of merchant banking activity, gains of sale of leased asset and other income; plus Item 110.a) “Losses from merchant banking activities, losses on the sale of leased asset, other expenses”, which is made up of the following components of Item 110.”Other operating expenses”: losses from merchant banking activities; losses on the sale of leased asset, other expenses, expenses for distribution network of financial consultant, other charges on leasing transactions.

With respect to 1997, 1996, 1995, and pro-forma 1997, figures have been reclassified to reflect the same accounting criteria used for 1999, 1998 and pro-forma 1998.

(4) The line Item refers to the sum of Item 30.a) “Dividends and other revenues from shares and other equities” plus Item 60. “Profits (losses) on financial transactions”;

(5) The line Item refers to the sum of Item 30.b) “Dividends and other revenues from equity investments” less Item 10.a) “Dividends from equity investments under 20% of stake, treated as interest” Item plus 170.a) “Income (losses) from investments carried at equity less losses from restructuring debt companies”, which is made up of certain components of Item 170 “Income (losses) from investments carried at equity”, amounting for 1999, 1998, 1997, 1996, 1995, pro-forma 1998 and pro forma 1997 to 118, 82, 16, 18, 9, 148 and 57, respectively;

(6) The line Item refers to Item 80.a) “payroll”;

(7) The line Item refers to Item 80.b) “other administrative costs”;

(8) The line Item refers to Item 80.b) “other indirect taxes”;

(9) The line Item refers to sum of Item 70.b) “Operating income” which is made up of Item 70. “Other operating income” minus the components of Item 70.a) described in note 3 above, plus 110.b) ”Operating expenses”, which is made up of Item 110. minus the components of 110 a) described in note 3 above;

(10) The line Item refers to Item 90. “Adjustments to intangible and tangible fixed assets”;

(11) The line Item refers to Item 100. “Provisions for risks and charges”;

(12) The line Item refers to the sum of Item 120. “Adjustments to loans and provisions for guarantees and commitments” plus Item 130. “Writebacks of adjustment to loans and provisions for guarantees and commitments” plus Item 140. “Provisions to the reserve for possible loan losses”;

(13) The line Item refers to the sum of Item 150. “Adjustments to financial fixed assets” plus Item 160. “Writebacks of adjustments to financial fixed assets” plus Item 170. b) “Losses from investments carried at equity from restructuring debt companies”, which is made up of components of Item 170. “Income (losses) from investments carried at equity” other than the components of Item 170. a) amounting for 1999, 1998, 1997, 1996, 1995 and pro-forma 1998 and 1997 to 0, 0, (121), (63), (2) and 0 and Euro (121) million, respectively;

(14) The line Item refers to the sum of Item 190. “Extraordinary income” plus Item 200. “Extraordinary expenses”;

(15) The line Item refers to Item 240. “Income tax”;

(16) The line Item refers to Item 230. “Change in reserve for general banking risks”;

(17) The line Item refers to Item 250. “Minority interest”.

	Years ended December 31,				
	1999	**1998**	**1997**	**1996**	**1995**
	in Euro except number of shares data				
Per Share Data					
Net income per ordinary share at year end (1)	0.75	0.65	0.11	0.38	0.28
Ordinary shares at year end	1,402,184,948	1,402,184,948	815,992,852	815,992,852	815,992,852
Dividend per ordinary share (1)	0.52	0.46	0.06	0.15	0.12
Shareholders' equity per share at year end (1)	5.97	6.18	6.18	6.25	6.13
Average number of ordinary shares	1,396,489,095	1,401,830,448	815,992,852	815,992,852	815,992,852

(1) All share data refers to ordinary shares only. All per share data is calculated on the basis of the actual number of shares outstanding at year-end, which was 815,992,852 for 1995, 1996, 1997, 1,402,184,948 for 1998 and 1,374,753,448 for 1999.

	Years ended December 31,				
	1999	1998	1997	1996	1995
	in millions of Euro except per share data and ratios				
Consolidated Balance Sheet Data					
Total assets (1)	140,223	158,289	132,584	135,424	130,507
Loans and leases net (2)	95,318	109,982	96,216	98,404	96,070
Due to banks (3)	28,012	27,762	26,990	31,063	28,589
Marketable debt securities and subordinated debt (4)	37,242	53,722	42,306	45,636	43,544
Minority interest (5)	539	394	243	31	46
Capital and reserves (6)	8,372	8,669	5,041	5,102	4,998
Consolidated Ratios					
Profitability Ratios					
Net interest margin (7)	1.80%	1.78%	1.91%	2.13%	2.21%
Return on average total assets (8)	0.78%	0.53%	0.06%	0.23%	0.17%
Return on assets at year-end (9)	0.75%	0.57%	0.07%	0.23%	0.17%
Return on average shareholder's equity (10)	13.09%	10.63%	1.71%	6.20%	4.82%
Return on equity at year-end (11)	12.54%	10.49%	1.72%	6.10%	4.56%
Capital Ratio					
Shareholder's equity to total assets at year-end	5.97%	5.48%	3.80%	3.77%	3.80%
Credit Quality Data					
Doubtful loans (12)	3,009	3,859	4,723	4,336	5,173
Doubtful loans as a percentage of total loans (13)	3.16%	3.51%	4.91%	4.41%	5.38%

The following Items numbers refer to the corresponding Item numbers shown in the audited Consolidated Balance Sheet of Sanpaolo IMI for the two years ended December 31, 1998 and 1999 and to the Sanpaolo balance sheet for the three years ended December 31, 1997, as the case may be.

(1) The line Item refers to total assets;

(2) The line Item refers to sum of Item 30. “Due from banks” and Item 40. “Loans to customers”;

(3) The line Item refers to Item 10. “Due to banks”;

(4) The line Item refers to the sum of Item 30. “Securities issued” and Item 110. Subordinated liabilities”;

(5) The line Item refers to Item 140. “Minority interest”;

(6) The line Item refers to the sum of Item 150. “Capital”, Item 160. “Additional paid in capital”, Item 170. “Reserves”, Item 100. “Reserve for general banking risks”, Item 120. “Negative goodwill arising on consolidation”, Item 130. “Negative goodwill arising on application of the equity method” Item 180. “Revaluation reserves”, Item 190. “Retained earnings” and Item 200. “Net income for the year”;

(7) Net interest margin is net interest income as a percentage of average interest-earning assets;

(8) Return on average assets is net income after minority interest as a percentage of average total assets;

(9) Return on average assets is net income after minority interest as a percentage of total assets at year-end;

(10)Return on average shareholders' equity represents net income after minority interests as a percentage of average shareholders' equity;

(11)Return on shareholders' equity represents net income after minority interests as a percentage of shareholders' equity at year-end;

(12)The line Item refers to the sum of doubtful loans including non-performing loans, problem loans, loans currently being restructured, restructured loans and unsecured loans exposed to country risk;

(13)Non performing loans as percentage of total loans represents the doubtful loans, (see note 12 above), as percentage of total loans referring to the Item 30 “Due to banks” and Item 40. “Loans to customers”.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on and should be read with the Consolidated Financial Statements which have been prepared in accordance with Italian GAAP. Italian GAAP differs in certain significant respects from US GAAP. For a summary of the significant differences between Italian GAAP and US GAAP, see Note 31 to the Consolidated Financial Statements. The consolidated financial statements included in this report have not been reclassified in order to comply with the format required for the consolidated statements of income and balance sheets of bank holding companies pursuant to Regulation S-X, but have been presented in the same format as that used in the consolidated financial statements included in the annual and interim reports to shareholders, including the 1998 Annual Report on Form 20-F filed with the SEC.

Pro-forma assumptions

In order to achieve the comparability of 1999 consolidated balance sheet and statement of income information with the corresponding information in 1998, the financial statements as of December 31, 1998 are presented in a pro-forma version that excludes Crediop from the scope of consolidation. The pro-forma statements have not been audited by an external auditing firm. The pro-forma statements have been prepared eliminating from every caption of the 1998 consolidated financial statements the contribution made by Crediop and its subsidiaries, consolidated on a line-by-line basis; the investment in Crediop was then valued under the equity method and included in the asset caption 80 "Investments in group companies–carried at equity". The application of this method resulted in the pro-forma consolidated net income and shareholders' equity to remain the same as the historical consolidated net income and shareholders' equity.

In the 1998 pro-forma financial statements deferred tax assets are included in the caption "other assets" and not in "prepaid expenses", in compliance with the Bank of Italy's instructions of August 3, 1999. In the 1998 to 1997 comparisons, information for 1997 is based on unaudited pro-forma numbers. The unaudited pro-forma figures for 1997 assume that the merger of Sanpaolo and IMI had taken place on January 1, 1997 and comparisons with the unaudited pro-forma figures are an attempt to separate out certain underlying trends from the impact of the merger.

In order to achieve the comparability of 1998 consolidated balance sheet and statement of income information with the corresponding information for 1997, certain adjustments have been made to the official aggregate figures for 1997 of the former Sanpaolo group and the former IMI group. These adjustments are the result of certain differences in presentation and accounting standards applied by the two groups.

The 1997 balances have also been adjusted to take into account certain changes in accounting policies introduced by the Sanpaolo IMI Group in 1998. A summary of the adjustments made to the 1997 balance sheet and statement of income information is presented below:

Pro-forma statement of income for 1997

- Interest expense: this has been increased by approximately Euro 16 million while commission expense has been decreased by a corresponding amount. This adjustment derives from a difference in the presentation methods used by the Sanpaolo and IMI groups in relation to commission paid for the placement of securities deferred over the economic life of the transaction;

- Other net operating income: these have been reduced by approximately Euro 5 million while commission on services (approximately Euro 1 million) and writebacks on loans (approximately Euro 8 million) have been increased by corresponding amounts. This adjustment derives from a difference in the presentation methods used by the Sanpaolo and IMI groups in relation to commission on the early repayment of loans and to writebacks of loans previously written off;

- Payroll costs: these have been reduced by approximately Euro 55 million, while miscellaneous costs and expenses (approximately Euro 42 million) and extraordinary expenses (around Euro 12 million) have been increased by corresponding amounts. Reclassification refers to cost items which were subject to different presentation methods in 1998, i.e. in line with the stance taken by the Italian Accounting Profession on this subject (issued following the introduction of IRAP: e.g. staff training costs and travel and assignment costs) and compliant with the provisions of Bank of Italy (charges for staff redundancies);

- Other administrative costs: these have been increased in total by approximately Euro 145 million while payroll costs (approximately Euro 42 million), indirect taxation (about Euro 64 million) and extraordinary expenses (approximately Euro 38 million) have been decreased by a corresponding amount. The adjustments refer to certain payroll costs as mentioned above, as well as to the reclassification of charges incurred for support provided by the Interbank Guarantee Fund;

- Adjustments made solely for reclassified financial statement purposes: other administrative costs have been increased by around Euro 64 million while indirect taxation has been decreased by a corresponding amount, following Sanpaolo’s adoption from 1998 onwards of the new VAT system (which has in substance transformed this tax into an ancillary charge on miscellaneous costs and expenses);

- Adjustments made solely for reclassified financial statement purposes: net adjustments on financial fixed assets have been increased by around Euro 121 million while income (losses) on investments carried at equity, in relation to non-recurring losses incurred by certain subsidiaries, has been decreased by a corresponding amount;

- Adjustments made solely for reclassified financial statement purposes: income taxes have been reduced by Euro 103 million while extraordinary expenses have been increased by a corresponding amount, in recognition of prepaid taxes as deferred tax assets on initial application of IAS No. 12;

- Default interest: the accounting policy of the Sanpaolo group has been applied. This policy anticipates the complete reversal of default interest, both for Sanpaolo and the former IMI group which considered that a portion of such interest was recoverable. The consequent adjustments have resulted in a reduction of interest income (approximately Euro 3 million) and extraordinary income (around Euro 3 million) with a corresponding decrease in net adjustments to loans.

Pro-forma balance sheet for 1997

- Loans: these have been reduced by around Euro 554 million in relation to the changes in accounting policy introduced in 1998 (discounting and new provisions for general credit risk) and the consistency of treatment of default interest, as discussed previously, while the allowance for possible loan losses has been reduced accordingly;

- Equity reserves: these have been reduced by around Euro 225 million for latent taxation introduced in 1998 on the reserve for general banking risks and the reserve under Law 169/83, as well as the reserve of a foreign subsidiary which would involve a tax liability for the Bank in the event of distribution. The reserves have also been reduced by deferred taxation calculated by the Bank on the adjustment of exchange rates to the fixed Euro parities, as disclosed in compliance with Section 21 of Decree 213/98. A further reduction relates to the cancellation of Sanpaolo shares previously shown in the financial statements of IMI among equity investments for Euro 215 million;

- The pro-forma capital is shown to the extent it exists subsequent to the merger, taking into consideration the cancellation of the Sanpaolo shares held by IMI S.p.A. (Euro 215 million); the corresponding increases were made to "Reserves".

Introduction -The Italian Economy and the Italian Banking Sector

The Euro zone and the Italian Economy.

In 1999 economic growth in the Euro zone decreased to 2.2%, compared to a growth rate of 2.7% in 1998, but the positive trend was rising in the second half of 1999. In 1999, the inflation rate in the Euro zone economies averaged 1.1%, but started rising again in the second half of the year, reaching 1.7% in December, largely as a result of the increase in energy prices. The ECB main refinancing rate was raised to 3% in November, having been cut by 50 basis points in March. The reason for such increase was to lower the speed at which the monetary supply was expanding and to contain the risks of higher inflation in the medium term. Growth in the Euro zone economies in Europe was not uniform. The cyclical slowdown that followed the financial crises in 1997 and 1998 hit countries with different levels of intensity. Some, such as France, Ireland and Spain, had a significant performance; others, such as Germany and Italy, turned in only modest growth, although the situation improved in the second half.

Italy's GDP grew in 1999 by 1.4%. The inflation rate averaged 1.7%, but reached 2% in December. Unemployment has also been high, in line with other European countries, and is particularly accentuated in the south.

The process of consolidating the public finances continued, with the deficit decreasing to 1.9% of GDP (from 2.8% in 1998), while the national was 114.7% of GDP.

Italian Banking Sector.

Historically, the Italian banking sector has been fragmented and largely shielded from foreign competition. That situation has been changing markedly in the last several years with a substantial acceleration of the change as the Euro came into being. The process of consolidation of the Italian banking industry continued in 1999, reflecting the need for organizations of sufficient size to address the wider and more competitive European market.

The bank lending rate increased by 9.1% in 1999, slightly higher than the whole of the Euro zone. The lending benefited from higher demand for credit from families for real estate investments and from companies to finance extraordinary transactions.

Bank funding statistics show that during 1999 private investors preferred liquidity. As a consequence, there was a significant increase in current accounts and a decrease in certificates of deposit and a minor growth in bonds.

Securities Brokerage.

High trading volumes and increase in the performance indices lead the Italian equity market to a capitalization of Euro 727 billion at the end of 1999, approximately two thirds of Italy's GPD, which represent an increase of 48.5% compared to 1998.

The equity indices (MIBTEL and MIDEX) increased by 22.3 % and 38.7%, respectively, compared to the results of 1998. The stocks of those companies able to exploit the new web technologies in the telecommunications, finance and banking sectors had a significant performance.

Asset management.

The asset management business – mutual funds, portfolio management and life insurance – continued to grow strongly in 1999, even if the growth rate was lower, compared to 1998 due to the different composition of the household investments portfolio, compared to 1998. At the end of 1999, the assets invested in Italian and Luxembourg mutual funds exceeded Euro 500 billion, an increase of 30% compared to 1998. Net inflow was particularly strong in the equity fund segment, foreign ones in particular, due to the performances of the major markets.

1999 Results of Operations

The numbers to the left of the line items in the tables contained in the following sections refer to the statutory classification for the Consolidated Statement of Income under Italian GAAP except for items 10.a), 70.a), 70.b), 110.a), 110.b) and 170.a),), which reflect managements's reclassification of the results of operations of the Group. Certain numbers in the tables reflect rounding used in the reclassification of the Consolidated Financial Statements of Income, and may differ slightly from the corresponding numbers in the Consolidated Statement of Income.

Summary

The results for 1999 were characterized by a strong increase in net commissions from services and in other banking income, which reflect the importance attributed by the Group to asset management. A positive impact also came from lower provisions and value adjustments on loans, which followed the improvement in credit quality, and lower operating costs. Finally, the year's income was driven by extraordinary items, which includes the sale of a 20% stake in Crediop and acceptance of the Olivetti takeover bid for Telecom Italia. This positive results more than offset the drop in net interest income and profits on financial transactions. Such ROE represents net income after minority interests as a percentage of monthly average shareholders' equity excluding the current-year profit.

As a result, the net income was Euro 1,050 million, an increase of 15.5% compared to 1998 and equivalent to an RoE of 14%. Such Roe represents the net income as a percentage of the monthly average shareholders' equity, excluding the current year profit.

Net interest income

The following table sets forth the principal components of the Group's net interest income for historical 1999, pro-forma 1998 and historical 1998. In 1999, net interest income was 45% of the Group's net interest and other banking income.

(in millions of Euro)

		1999	Pro forma 1998 (unaudited)	1998
10	Interest income and similar revenues	5,966	8,642	9,981
10.a)	Dividends from equity investments under 20% of stake, treated as interest	15	-	-
20	Interest expense and similar charges	(3,934)	(6,219)	(7,330)
	Net interest income	2,047	2,423	2,651

Net interest income was affected by the sharp reduction in market rates between 1998 and 1999, following the introduction of the Euro, which differentiated the two years considerably: the Euribor three-month interbank rate decreased by an average of two points during 1999, from 5% in 1998 to 3%.

Lower market rates led to smaller spreads being applied to customers. Readily available fund accounts at the Italian branches of the Bank decreased on average by 80 basis points. The rates earned on loans to customers decreased significantly compared to interest rates paid on deposits. Lending rates were affected by the aggressive lending policy pursued by many competitors, which is reflected in an increase in elasticity of lending rates compared with the reduction in market yields. Borrowing rates, on the other hand, suffered from the problems met in shifting all of the decline in market yields onto the interest rates paid on account holders deposits; these fell to little over 1% on average during the year.

The decrease in market rates also meant a lower yield on the net balance of interest-earning assets and interest–bearing liabilities.

The general decline in volumes of loans to customers, (a feature that characterized most of 1999), did not make it possible to offset the negative impact of lower rates and spreads on net interest income. This was partly the result of a management decision to review the Group's loan policy, and to reduce all types of higher risk lending that did not generate adequate returns.

Net interest income was also affected by the reduction in the net balance between interest-earning assets and interest–bearing liabilities; this was partly due to the hefty purchases of equity investments.

Interest rates in the fourth quarter of 1999 gradually raised back to the level they were in the same period in 1998; this, together with the gradual upswing in lending volumes, allowed to limit the negative trend in net interest income for the last few months of 1999. The overall decline of 15.5% in net interest income at the end of 1999 was an improvement compared to the first half and third quarter results, a decrease of 17.8% and 16.8%, respectively. The situation is confirmed by the results for the first two months of 2000, with a steady recovery trend in net interest income.

The following table compares 1999 average interest rates with 1998 pro-forma interest rates. For a comparison of 1999 average interest rates with 1998 historical interest rates see Item 1 "Description of business – Selected Statistical Information – Average Balances and Interest Rates".

(in millions of Euro)

	1999			**Pro forma 1998 (1)** (unaudited)		
	Average balance	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
Interest-earning assets	113,419	6,031	5.32	131,638	8,660	6.58
loans to customers	69,115	4,195	6.07	69,992	5,412	7.73
- in Euro	62,633	3,882	6.20	n.d.	n.d.	n.d.
- in foreign currency	6,482	313	4.83	n.d.	n.d.	n.d.
due from banks	18,174	635	3.49	22,198	1,110	5.00
- in Euro	14,502	502	3.46	n.d.	n.d.	n.d.
- in foreign currency	3,672	133	3.62	n.d.	n.d.	n.d.
securities	17,980	913	5.08	26,082	1,475	5.65
- in Euro	14,658	731	4.99	n.d.	n.d.	n.d.
- in foreign currency	3,322	182	5.48	n.d.	n.d.	n.d.
repurchase agreements	8,150	288	3.53	13,366	663	4.96
- in Euro	5,996	218	3.64	n.d.	n.d.	n.d.
- in foreign currency	2,154	70	3.25	n.d.	n.d.	n.d.
Non-interest earning assets	21,684			21,749		
Total assets	135,103	6,031		153,387	8,660	
Interest-bearing liabilities	108,949	3,984	3.66	124,655	6,237	5.00
due to customers	37,273	622	1.67	36,024	1,209	3.36
- in Euro	36,137	577	1.60	n.d.	n.d.	n.d.
- in foreign currency	1,136	45	3.96	n.d.	n.d.	n.d.
securities issued and subordinated liabilities	35,677	1,881	5.27	38,229	2,382	6.23
- in Euro	30,454	1,625	5.34	n.d.	n.d.	n.d.
- in foreign currency	5,223	256	4.9	n.d.	n.d.	n.d.
due to banks	20,966	917	4.37	29,300	1,592	5.43
- in Euro	14,663	662	4.51	n.d.	n.d.	n.d.
- in foreign currency	6,303	255	4.05	n.d.	n.d.	n.d.
repurchase agreements	12,419	406	3.27	18,243	853	4.68
- in Euro	10,515	339	3.22	n.d.	n.d.	n.d.
- in foreign currency	1,904	67	3.52	n.d.	n.d.	n.d.
subordinated liabilities	2,614	158	6.04	2,859	201	7.03
- in Euro	1,697	100	5.89	n.d.	n.d.	n.d.
- in foreign currency	917	58	6.32	n.d.	n.d.	n.d.
Non interest-bearing liabilities	18,135			20,177		
Shareholder's equity	8,019			8,555		
Total liabilities and shareholder's equity	135,103	3,984		153,387	6,237	
Net interest income		2,047			2,423	

Net interest and other banking income

The decline in net interest income was almost entirely offset by the increase in net commissions, largely due to an increase in asset management services to households. An increase of 18.5% in commissions in 1999 compared to 1998 resulted in net interest and other banking income to decrease by 1.9% in 1999 compared to 1998.

The following table sets forth the principal components of the Group's net interest and other banking income for historical 1999, pro-forma 1998 and historical 1998.

	1999 (Euro/mn)	1998 pro-forma (Euro/mn)	1998 (Euro/mn)
Net interest income	2,047	2,423	2,651
Net commissions	2,066	1,744	1,738
Profits/(losses) on financial transactions	251	316	324
Profits of companies carried at equity & dividends on equity investments	205	173	108
Net interest & other banking income	4,569	4,656	4,821

Net commissions

The following table sets forth the principal components of the Group's net commission and other dealing revenues for historical 1999, pro-forma 1998 and historical 1998.

(in millions of Euro)

		1999	**Pro forma 1998** (unaudited)	**1998**
40	Commission income	2,587	2,227	2,230
50	Commission expense	(530)	(473)	(479)
70. a)	Income from sale of merchant banking activities, gains of sale of leased assets, other income (1)	46	28	28
110. a)	Loss from merchant banking activities, losses on the sale leased assets, other expenses (2)	(37)	(38)	(50)
	Net commissions & other dealing revenues	2,066	1,744	1,729

(1) This item is made up of the following components of Item 70. "Other operating income": income from sale of merchant banking activities; gains of sale of leased asset; other income. With respect to 1998 and 1998 pro-forma, figures have been reclassified to reflect the same accounting criteria used for 1999.

(2) This item is made up of the following components of Item 110. "Other operating expenses": losses from merchant banking activities, losses on the sale of leased asset, expenses for distribution network of financial consultant, other charges on leasing transactions and other expenses. With respect to 1998 and 1998 pro-forma, figures have been reclassified to reflect the same accounting criteria used for 1999.

Net commissions and other dealing revenues were Euro 2,066 million in 1999, an increase of 18.5% compared to 1998; the year end result confirmed the positive trend during the year, which showed an increase of 11% in the first half and an increase of 14.6% in 1999 in the first nine months.

Commissions earned by the asset management, dealing and advisory area, in particular, increased by 25% in 1999. This was mainly due to the growth in mutual funds, portfolio management schemes and insurance policies sold to customers, which rose by more than 32% with a flow of more than Euro 26,800 million; this increase was also due to the growing importance of mutual funds and higher value-added products, especially unit linked and index linked policies. The proportion of equity funds increased over the twelve months from 24% to 38%, while unit linked and index linked policies rose by 115%.

In addition, other commissions and net dealing revenues benefitted from the increase in income from merchant banking activities, which went from Euro 8 million in 1998 to Euro 26 million in 1999.

The increase in commissions led to a further improvement in the ratio between commissions and payroll expenses, which rose from 114% at the end of 1998 to 135% at the end of 1999. The ratio between commissions and total administrative costs also improved from 71% in 1998 to 84% in 1999.

Profits on financial transactions and dividends on shares

The following table sets forth the principal components of the Group's profits on financial transactions and dividends on shares for historical 1999, pro-forma 1998 and historical 1998.

(in millions of Euro)

	1999	**Pro forma 1998** (unaudited)	**1998**
30.a) Dividends and other revenues from shares and other equities	148	118	118
60. Profits (losses) on financial transactions	103	198	206
Profits (losses) on financial transactions & dividends on shares	251	316	324

The change in market scenario and the decision to restrict the Group's risk profile, on the other hand, have had an effect on the level of profits from financial transactions, which decreased by 20.6% to Euro 251 million. There was a significant reduction in the operations carried out by the foreign network on securities and derivatives and in transactions in foreign exchange, due to the introduction of the Euro.

This item its by this nature subject to market volatility.

Profits of companies carried at equity and dividends on equity investments

The following table sets forth the principal components of the Group's profits of companies carried at equity and dividends on equity investments for historical 1999, pro-forma 1998 and historical 1998.

(in millions of Euro)

		1999	Pro forma 1998 (unaudited)	1998
30. b)	Dividends and other revenues on equity investments	87	25	26
170. a)	Income (losses) from investments carried at equity, less losses from restructuring debt companies	118	148	82
	Profits (losses) of companies carried at equity and dividends on equity investments	205	173	108

(1) This item is made up of the sum of the Item 30.b) "Dividends and other revenues from equity investments" less Item 10.a) "Dividends from equity investments under 20% of stake, treated as interest".

Earnings by companies valued at net equity and dividends on equity investments increased by 18.5% in 1999 compared to 1998. In particular, Sanpaolo Vita and Fideuram Vita, the Group's insurance companies that operate in the field of life insurance, contributed Euro 80 million to consolidated net income, an increase of 5% compared to 1998. This positive trend in performance might not be sustained in the followings years. Dividends amounted to Euro 87 million in 1999, compared to Euro 25 million in 1998. The increase was due to the Group's purchase of additional equity investments during the year and includes Euro 38 million of extraordinary dividends paid out by INA in November, 1999.

Operating expenses

The following table sets forth the principal components of the Group's operating expenses for historical 1999, pro-forma 1998 and historical 1998.

(in millions of Euro)

		1999	Pro forma 1998 (unaudited)	1998
80.	Administrative costs			
80. a)	payroll	(1,534)	(1,526)	(1,543)
80. b)	other	(932)	(940)	(952)
	other administrative costs	*(763)*	*(769)*	*(780)*
	other indirect taxes	*(169)*	*(171)*	*(172)*
	Total administrative costs	(2,466)	(2,466)	(2,495)
70. b)	operating income (1)	178	197	195
110 b)	operating expenses (2)	(3)	(13)	(1)
90.	Adjustments to intangible and tangible fixed assets	(293)	(302)	(307)
	Operating expenses	(2,584)	(2,584)	(2,608)

(1) This item refers to sum of Item 70. "Other operating income" less Item 70.a) "Income from sale of merchant banking activities, gains of leased assets, other expenses".

(2) This item refers to the sum of Item 110. "Other operating expenses" less Item 110a) "Loss from merchant banking activities, losses on the sale of leased assets, other expenses, expenses for distribution network of financial consultants, other charges on leasing transactions".

Administrative costs and adjustments to tangible and intangible assets

Administrative costs, amortization and depreciation, for a total of Euro 2,584 million, net of cost recoveries, remained substantially unchanged in 1999 compared to 1998. The Bank's operating costs in 1999 decreased, mainly due to measures implemented to rationalize and to boost efficiency, but these were offset by the higher costs incurred on the various projects initiated by the Bank and other Group companies operating in areas with higher growth potential, especially in the field of asset management and trading on-line. The investments made in these projects led to an interruption of the decline trend of the cost to income ratio, including depreciation and net of recoveries, such ratio was 56.6% at the end of 1999 compared to 55.5% at the end of 1998.

The steps taken by Sanpaolo IMI to rationalize operating costs were effective: payroll expenses were reduced by 2%, while other administrative expenses by 5.8%. The workforce was reduced by 500 people, leading to a reduction of almost 1,300 jobs over the two-year period ended in December 1999.

Net value adjustments and provisions for loan losses and equity in earnings of unconsolidated subsidiaries

The improvement in asset quality in 1999 compared to 1998, resulted in lower provisions and value adjustments. This enabled the Group to achieve income before extraordinary items of Euro 1,504 million, an increase of 9.5% in 1999 compared to 1998.

The following table sets forth the principal components of the Group's net value adjustments and provisions for loan losses and equity in earnings of unconsolidated subsidiaries for historical 1999, pro-forma 1998 and historical 1998.

(in millions of Euro)

	1999	Pro forma 1998 (unaudited)	1998
100. Provisions for risks and charges	(81)	(100)	(125)
120. Adjustments to loans and provisions for guarantees and commitments	(664)	(779)	(780)
130. Writebacks of adjustment to loans and provisions for guarantees and commitments	361	254	254
140. Provisions to the reserve for possible loan losses	(10)	(6)	(6)
Adjustments to loans and provisions for guarantees and commitments, net	(313)	(531)	(532)
150. Adjustment to financial fixed assets	(89)	(67)	(67)
160. Writebacks of adjustment to financial fixed assets	2	0	0
Adjustment to financial fixed assets, net	(87)	(67)	(67)
Net value adjustment and provision for loan losses and equity in earnings of unconsolidated subsidiaries	(481)	(698)	(724)

Adjustments to the value of loans and investment securities, together with provisions, decreased by 31.1% to Euro 481 million. A lower flow of doubtful loans and more effective recovery procedures were reflected in a 15.5% decrease in net non-performing loans since the beginning of 1999, as well as 28.5% decrease in problem loans and net loans being rescheduled and a 29.5% decrease in unsecured loans to residents in countries at risk. In addition, a large portion of doubtful loans was collected for amounts higher than their net book value, written down in previous years; Euro 224 million of principal and interests were reinstated, while losses on transactions and disposals remained stable at Euro 31 million, confirming the rigorous valuation policy adopted by the Group.

Value adjustments include a writedown equal to Euro 58 million of the 18% Group's interest in Beni Stabili, which was prudentially adjusted to average market prices for the second half of 1999. Value adjustments also include Euro 60 million of writedowns of unsecured loans and investment securities of Russian residents, whose coverage was raised from 60% in 1998 to 85% in 1999 of their nominal value

Extraordinary income

	1999	Pro forma 1998 (unaudited)	1998
			(in millions of Euro)
190. Extraordinary income	367	176	223
200. Extraordinary expenses	(73)	(56)	(64)
Net extraordinary income	294	120	159

Net extraordinary income for 1999 amounted to Euro 294 million, mainly due to two transactions that took place in the first half of 1999:

- the sale of a 20% stake in Crediop, which resulted into a capital gain of Euro 94 million;
- the acceptance of Olivetti's takeover bid for Telecom Italia, which generated a capital gain of Euro 215 million.

Minority interest in income of consolidated subsidiaries

The following table sets forth the minority interest in income of consolidated subsidiaries for historical 1999, pro-forma 1998 and historical 1998:

	1999	Pro forma 1998 (unaudited)	1998
			(in millions of Euro)
250. Minority interest	(62)	(43)	(93)

Minority interest in income of consolidated subsidiaries increased by 44.2% in 1999 compared to pro-forma 1998. The change is mainly due to the increase in the net income attributable to minority shareholders of NHS. The capital of NHS is 49% owned by shareholders other than the Group.

Income taxes

The following table sets forth the principal components of the Group's income taxes for historical 1999, pro-forma 1998 and historical 1998:

	1999	Pro forma 1998 (unaudited)	1998
			(in millions of Euro)
240. Income taxes	(685)	(534)	(630)

Income taxes for 1999 amounted to Euro 685 million, representing a 38.1% pre-tax income rate.

For information about Sanpaolo IMI's operating results by business areas for the year ended December 31, 1999, see Item 1 "Description of Business" – "1999 results by business area".

1998 Results of Operations

The numbers to the left of the line items in the tables contained in the following sections refer to the statutory classification for the Consolidated Statement of Income under Italian GAAP except for items 70.a), 70.b), 110.a), 110.b), 170.a), and 170.b), which reflect management's reclassification of the results of operations of the Group. Certain numbers in the tables reflect rounding used in the reclassification of the Consolidated Financial Statements of Income, and may differ slightly from the corresponding numbers in the Consolidated Statement of Income.

Summary

Net income in 1998 was Euro 909 million, an increase of 138.8% from pro-forma 1997 net income of Euro 381 million. The increase in net income was driven by the significant increase in net commission income, significant reductions in adjustments to loans as the quality of the loan portfolio improved and containment of administrative costs. Net interest income, which declined 1.3%, did not contribute to the increase.

Return on equity amounted to over 11% in 1998 as compared with 4.7% in 1997.

Net interest income

The following table sets forth the principal components of the Group's net interest income for historical 1998, pro-forma 1997 and historical 1997. In 1998, net interest income was 55% of the Group's net interest and other banking income, down from 63% of pro-forma 1997 net interest and other banking income.

(in millions of Euro)

	1998	Pro forma 1997 (unaudited)	1997
10. Interest income and similar revenues	9,981	11,802	8,936
20. Interest expense and similar charges	(7,330)	(9,116)	(6,753)
Net interest income	2,651	2,686	2,183

In 1998 net interest income declined to Euro 34 million or 1.3% from pro-forma 1997 net interest income. The Italian banking system has experienced generally declining interest rates and tightening spreads in Lira-denominated funding and lending rates since the beginning of 1995. The downward drift in interest rates, accelerated in Italy's case by the process of convergence, has progressively eroded the Group's return, measured by interest income, on its liquid funds, where liquid funds is the difference between the Group's average interest earning assets and its average interest bearing liabilities. The decline in the Group's average yield on its liquid funds amounted to an average of more than 1% compared to pro-forma 1997. Also, liquid funds were depleted by the high level of dividends paid in 1998, which amounted to 744 million Euro including extraordinary dividends of Euro 527 million.

Other factors in the decline in 1998 net interest income were lower dealing volumes and reduced levels of customer deposits and loans. The decline in dealing volumes reflected reduced activity in the interbank market and a smaller average securities portfolio, due to the diminishing opportunities for profitable dealings in the financial markets under conditions relatively stable interest-rate forecasts. Another factor in the reduction of the securities portfolio was a strategy of favoring low risk assets at the expense of those involving higher levels of risk. Customer-related volumes in decline included the types of direct deposits with the highest servicing costs (e.g. CDs and deposits linked to repurchase agreements) and short-term lending. These trends were the result of a policy aimed at improving return on funds deployed while containing risk.

The following table compares 1998 average interest rates with 1997 pro-forma interest rates. For a comparison of 1998 average interest rates with 1997 historical interest rates see Item 1 "Description of Business—Selected Statistical Information—Average Balances and Interest Rates."

(in millions of Euro)

	1998			Pro forma 1997 (1) (unaudited)		
	Average balance	**Interest**	**Average rate**	**Average balance**	**Interest**	**Average rate**
Interest-earning assets	148,992	9,972	6.69	155,190	11,928	7.69
loans to customers	83,877	6,531	7.79	84,483	7,512	8.89
- in Euro	70,800	5,850	8.26	71,001	6,842	9.64
- in foreign currency	13,077	681	5.20	13,482	670	4.97
due from banks	22,961	1,152	5.01	28,732	1,590	5.53
- in Euro	13,077	660	5.05	14,717	1,033	7.02
- in foreign currency	9,884	492	4.97	14,015	557	3.98
securities	26,944	1,526	5.66	29,004	1,993	6.87
- in Euro	19,800	1,177	5.94	21,941	1,585	7.22
- in foreign currency	7,144	349	4.89	7,063	408	5.78
repurchase agreements	15,210	763	5.02	12,971	833	6.42
- in Euro	12,343	659	5.34	11,066	762	6.88
- in foreign currency	2,867	104	3.64	1,905	71	3.71
Non-interest earning assets	22,293			22,720		
Total assets	171,285	9,972		177,910	11,928	
Interest-bearing liabilities	141,381	7,321	5.18	147,568	9,243	6.26
due to customers	46,221	1,787	3.87	50,210	2,608	5.19
- in Euro	35,471	1,263	3.56	40,542	2,219	5.47
- in foreign currency	10,750	524	4.88	9,668	389	4.02
securities issued and subordinated liabilities	43,917	2,874	6.54	46,311	3,579	7.73
- in Euro	36,270	2,483	6.85	40,971	3,261	7.96
- in foreign currency	7,647	391	5.11	5,340	318	5.95
due to banks	32,173	1,763	5.48	34,003	1,991	5.86
- in Euro	16,957	978	5.76	14,049	1,097	7.81
- in foreign currency	15,216	785	5.16	19,954	894	4.48
repurchase agreements	19,070	897	4.70	17,044	1,065	6.25
- in Euro	16,437	784	4.77	14,592	953	6.53
- in foreign currency	2,633	113	4.29	2,452	112	4.55
Non interest-bearing liabilities	21,349			22,108		
Shareholder's equity	8,555			9,266		
Total liabilities and shareholder's equity	171,285	7,321		178,942	9,243	
Net interest income		2,651			2,685	

(1) Derived by aggregating Sanpaolo and IMI data which has been reclassified using consistent criteria for comparison purposes, as described under "–Pro-forma assumptions" above.

Net commissions

The following table sets forth the principal components of the Group's net commission and other dealing revenues for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

		1998	Pro forma 1997 (unaudited)	1997
40.	Commission income	2,230	1,635	1,114
50.	Commission expense	(479)	(423)	(180)
70 a)	Gain on sale of merchant banking activities, gaims of sale of leased asset, other expenses	28	50	22
110 a)	Losses from merchant banking activities, losses on the sale of leased asset, other expenses	(41)	(51)	(37)
	Net commissions and other dealing revenues	1,738	1,211	919

(1) This item is made up of the following components of Item 70. "Other operating income": income from sale of merchant banking activities; gains of sale of leased assets; other income. With respect to 1997 and pro-forma 1997, figures have been reclassified to reflect the same accounting criteria used for 1998.

(2) This item is made up of the following components of Item 110. "Other operating expenses": losses from merchant banking activities; losses on the sale of leased assets; other expenses. With respect to 1997 and pro-forma 1997, figures have been reclassified to reflect the same accounting criteria used for 1998.

Net commission income and other dealing revenues increased by 43.6% from the 1997 pro-forma results. In 1998 the ratio of net commissions and other dealing revenues to net interest and other banking income increased from 28.4% on a pro-forma basis in 1997 to 36% in 1998. All of the main sources of commission income contributed to the increase, with the combined total for management, dealing and other services offered to private and institutional customers climbing by 55.4%, on the strength of rising levels of managed savings and dealings in equities. This strong growth in commission revenues has also been experienced by other Italian banks and has been helped, on an industry-wide basis, by a preference among small investors for mutual funds, portfolio management and insurance products. Growth and continued strength in this area is key to meeting the Group's objectives, particularly in light of the continued erosion in net interest margin.

Profits on financial transactions and dividends on shares

The following table sets forth the principal components of the Group's profits on financial transactions and dividends on shares for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

	1998	Pro forma 1997 (unaudited)	1997
30. Dividends and other revenues from shares and other equities	118	77	49
60. Profits (losses) on financial transaction	206	205	177
Profits (losses) on financial transaction and dividens on shares	324	282	226

Profits on financial transactions and dividends on shares increased by15% from pro-forma 1997. An exceptionally good first half-year was followed by a slowdown in the second half as the crisis that developed in Japan, South-East Asia, Russia and Latin America caused volatility in the international financial market. This item is, by its nature, subject to market volatility.

Profits of companies carried at equity and dividends on equity investments

The following table sets forth the principal components of the Group's profits of companies carried at equity and dividends on equity investments for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

		1998	Pro forma 1997 (unaudited)	1997
30. b)	Dividends and other revenues from equity investments	25	27	6
170. a)	Income (losses) from investments carried at equity, less losses from restructuring debt companies (1)	83	57	16
	Profits (losses) of companies carried at equity and dividends on equity investments	108	84	22

(1) This item is made up of the sum of the Item 170. "Income (losses) from investments carried at equity" less Item 170.b) "Losses from investments carried at equity from restructuring debt companies" amounting for 1998, 1997, and pro-forma 1997 to 0, (121), and Euro (121) million, respectively.

This figure rose by 29% compared with pro-forma 1997. The combined profits of companies carried by the equity method were Euro 83 million, having risen by more than 45% largely by virtue of the increasing performance of the Group's insurance companies, Sanpaolo Vita and Fideuram Vita. This extraordinarily positive trend in performance might not be sustained in the following years.

Operating expenses

The following table sets forth the principal components of the Group's operating expenses for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

		1998	Pro forma 1997 (unaudited)	1997
80.	Administrative costs			
80. a)	payroll	(1,543)	(1,629)	(1,478)
80. b)	other	(952)	(980)	(750)
	other administrative costs	*(780)*	*(781)*	*(512)*
	other indirect taxes	*(172)*	*(199)*	*(238)*
	Total administrative costs	(2,495)	(2,609)	(2,228)
70. b)	operating income (1)	195	226	191
110 b)	operating expenses (2)	(10)	(1)	-
90.	Adjustments to intangible and tangible fixed assets	(307)	(327)	(281)
	Operating expenses	(2,617)	(2,711)	(2,318)

(1) This item refers to sum of Item 70. "Other operating income" minus Item 70.a) "Income from sale of merchant banking activities, gains of sale of leased assets, other income" (see –"Profits of companies carried at equity and dividends on equity investments" above).
(2) This item refers to the sum of Item 110. "Other operating expenses" less Item 110.a) "Loss from merchant banking activities, losses on the sale of leased assets, other expenses" (see " – Net commissions" above).

Administrative costs

Together with the increase in net interest and other banking income, containment of administrative costs was a key factor in the 42.3% increase in operating income from pro-forma 1997. The 4.4% decrease in administrative costs would have been limited to 1.6% if the positive impact of the introduction of a new regional tax on productivity (IRAP), which abolished health-care contributions by employers, were ignored. The savings on administrative costs were confined to Sanpaolo IMI which had a decline of 4.2% in administrative costs (over 7% including the IRAP effect). At the subsidiary level there were increased in administrative costs, mainly related to business expansion in the savings-management and investment banking sectors.

Personnel expenses decreased by 5.3%, or, excluding the effect of IRAP, by 0.9%. Severance packages of Euro 24 million in 1998 are not included in personnel expenses but are treated as an extraordinary item.

In 1998 the level of other administrative costs was unchanged from pro-forma 1997 figures. This total includes the full 1998 cost associated with the introduction of Euro (Euro 20 million); an additional expenditure of Euro 20 million on software, and Euro 3 million associated with the year 2000, with benefits expected to extend over a number of years, was deferred among intangible fixed assets.

Indirect taxes and similar dues amounted to Euro 172 million, down by 13.7% from pro-forma 1997 amounts. This item was affected by a new VAT on additions to fixed assets whereby the VAT is treated as an incidental cost to be charged to the asset account and reflected in the depreciation provisions, rather than expensed as an indirect tax. There was also a reduction in duty on share dealing, following the introduction of an exemption for sales of securities in stock markets.

Other operating income decreased 17.5%. The reduction partly arose from the above-mentioned change in the system of duties on stockmarket transactions, which led to a lower level of recoveries from customers.

Adjustments to tangible & intangible fixed assets

Depreciation and amortization charges totaled Euro 307 million 6.3% lower than pro-forma 1997. However, the 1997 pro-forma figures reflect Euro 23 million in extraordinary writedowns accounted by Sanpaolo to reflect depreciation of certain real estate assets, to adjust their book value to their market value. Excluding these extraordinary charges the total increased by 1.5% as a result of the new rules relating to VAT in "–Administrative Costs" mentioned above.

Net value adjustments and provisions for loan losses and equity in earnings of unconsolidated subsidiaries

The following table sets forth the principal components of the Group's net value adjustments and provisions for loan losses and equity in earnings of unconsolidated subsidiaries for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

	1998	**Pro forma 1997** (unaudited)	**1997**
100. Provisions for risks and charges	(125)	(71)	(52)
120. Adjustments to loans and provisions for guarantees and commitments	(780)	(1,057)	(1,037)
130. Writebacks of adjustment to loans and provisions for guarantees and commitments	254	394	340
140. Provisions to the reserve for possible loan losses	(6)	(96)	-
Adjustments to loans and provisions for guarantees and commitments, net	(532)	(759)	(697)
150. Adjustment to financial fixed assets	(67)	(17)	(10)
160. Writebacks of adjustment to financial fixed assets	-	2	1
170. b) Losses from investments carried at equity from restructuring debt companies (1)	-	(121)	(121)
Adjustment to financial fixed assets, net	(67)	(136)	(130)
Net value adjustment and provision for loan losses and equity in earnings of unconsolidated subsidiaries	(724)	(966)	(879)

(1) This item is made up of certain components of Item 170. "Income (losses) from investment carried at equity" amounting for 1998, 1997 and pro-forma 1997 to 0, (121), and Euro (121) million, respectively.

Income before extraordinary items increased by 154% from the 1997 pro-forma amounts. This improvement reflected a reduction of Euro 243 million in the combined total of provisions for risks and charges and amounts written off loans and investments.

Provisions for risks and charges amounted to Euro 125 million, having increased by 75% mainly due to a higher level of a series of provision for the outcome of a series of pending legal disputes relating to the normal course of business, in particular, for expected losses from repayments claimed by the receivers of bankrupt customers.

An improving picture as regards problem loans, mainly during the second half of 1998, justified a reduction of 30% in provisions for lending losses from pro-forma 1997. This reduction should also be understood against a background of significant provisions taken by the former Sanpaolo in 1997. Net of reinstatements, these provisions for 1998 amounted to Euro 532 million, analyzed below:

- Euro 661 million in writedowns net of reinstatements due to year-end evaluation plus losses on settlements and bankruptcy cases;
- plus Euro 17 million in provisions for guarantees and commitments;
- minus Euro 146 million in reinstatements following recovery of principal amounts written off in earlier years (Euro 94 million) and of default interest also previously eliminated (Euro 53 million).

Net adjustments to financial fixed assets totaled Euro 67 million, down by 50.8% from pro-forma 1997 figures. Euro 41 million of the total 1998 amount referred to permanent losses on equity investments carried at cost, including Euro 16 million and Euro 11 million on the Group's interests in Apokè Six and Banco Desarrollo (Chile) respectively. The remaining Euro 26 million related to writedowns of investment securities obtained on conversion of loans into equity to borrowers in Russia and others affected by country risk.

Extraordinary items

The following table sets forth the principal components of the Group's extraordinary items for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

	1998	Pro forma 1997 (unaudited)	1997
190. Extraordinary income	223	256	238
200. Extraordinary expenses	(64)	(89)	(98)
Net extraordinary income	159	167	140

Net extraordinary income amounted to Euro 159 million and decreased by 4.6% from pro-forma 1997 figures. Favorable items included Euro 86 million in prepaid taxes relating to earlier years, credited in 1998 by virtue of extending the application of IAS 12 (the International Accounting Standard on deferred taxation), which was previously restricted to the Bank (with a reference period of four future years). For a detailed explanation of the changes in Sanpaolo IMI's accounting policies see Note 6 in the "Notes to Consolidated Financial Statements". Extraordinary expenses included Euro 24 million in early retirement incentives offered to employees.

Minority interest in income of consolidated subsidiaries

The following table sets forth the principal components of the Group's minority interest for historical 1998, pro-forma 1997 and historical 1997:

(in millions of euro)

	1998	Pro forma 1997 (unaudited)	1997
250. Minority interests	(93)	(68)	(36)

Minority interest in income of consolidated subsidiaries increased by 36.4% from pro-forma 1997. The change is mainly due to the portion of the net income attributable to minority shareholders of Banca Fideuram following the positive results of Banca Fideuram in 1998. The capital of Banca Fideuram is approximately 26% owned by other shareholders.

Income taxes

The following table sets forth the principal components of the Group's income taxes for historical 1998, pro-forma 1997 and historical 1997:

(in millions of Euro)

	1998	Pro forma 1997 (unaudited)	1997
240. Income taxes	(630)	(295)	(114)

The charge for income taxes of Euro 630 million implies an effective tax rate of 38.4%. It is not directly comparable with the 1997 pro-forma figure due to the introduction of IRAP and the extension of the reference period for the treatment of deferred taxation (mentioned in "–Extraordinary items" above).

Financial condition

Assets managed on behalf of customers

The Group attributes a great deal of importance to the management of customers' financial assets. Customers' financial assets at the end of 1999 reached a total of Euro 260,026 million, a net inflow of Euro 26,210 million (an increase of 11.2% compared to 1998).

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Asset management (1)	110,472	42.5	83,617	35.8	32.1	83,308	34.5
- *mutual funds*	*76,019*	*29.2*	*59,412*	*25.4*	*28.0*	*59,359*	*24.6*
- *fund-based portfolio management*	*17,836*	*6.9*	*10,467*	*4.5*	*70.4*	*10,467*	*4.3*
- *portfolio management*	*6,117*	*2.4*	*6,069*	*2.6*	*0.8*	*5,813*	*2.4*
- *life insurance*	*10,500*	*4.0*	*7,669*	*3.3*	*36.9*	*7,669*	*3.2*
Asset administration (1)	70,597	27.1	65,700	28.1	7.5	60,545	25.1
Direct customer deposits	78,957	30.4	84,499	36.1	(6.6)	97,398	40.4
- *Current and deposits accounts*	*36,096*	*13.9*	*31,167*	*13.3*	*15.8*	*30,037*	*12.5*
- *certificates of Deposits*	*9,090*	*3.5*	*11,761*	*5.0*	*(22.7)*	*12,059*	*5.0*
- *bonds*	*23,643*	*9.1*	*25,897*	*11.1*	*(8.7)*	*38,437*	*15.9*
- *commercial paper*	*2,584*	*1.0*	*1,395*	*0.6*	*85.2*	*1,395*	*0.6*
- *repurchase agreements*	*3,758*	*1.4*	*8,863*	*3.8*	*(57.6)*	*8,766*	*3.6*
- *other*	*3,786*	*1.5*	*5,416*	*2.3*	*(30.1)*	*6,704*	*2.8*
Customers' financial assets	260,026	100.0	233,816	100.0	11.2	241,251	100.0

(1) These do not appear on the balance sheet.

This development in customers' financial assets reflects the results achieved in the professional asset management sector. This is the area where the Group concentrated most of its efforts, as this is where customers expressed the most needs. By the end of December 1999, mutual funds, portfolio management schemes and insurance policies exceeded a total of Euro 110,000 million, an additional inflow of Euro 26,855 million compared to 1998, with a rate of growth of 32.1%. Asset management represented 42% of total customers' financial assets at the end of 1999, compared with 36% at the end of 1998.

Market positioning

The positive trend in customers' financial assets made it possible to reinforce the Group's competitive positioning on the domestic market: Sanpaolo IMI's market share at the end of 1999 was estimated at 11%, an improvement from the beginning of the year. The increase in the Group's share of the asset management market, approximately 13%, increased over the year by one percentage point, which more than offset the decline in direct deposits, down from 7.9% in December 31, 1998 to 7.1% at December 31, 1999.

	1999	Pro forma 1998 (unaudited)	1998
	%	%	%
Asset management market	13.0 (estimated)	11.9	n/d
of which: - Mutual funds and fund based portfolio management	17.5	17.5	n/d
- Portfolio management	4.6	3.4	n/d
- Life insurance	7.6	6.9	n/d
Direct deposits	7.1	7.9	n/d

Asset management and administration

The increase in the Group's asset management business affected all types of customer investments.

Mutual funds and fund-based portfolio management schemes showed an inflow of Euro 23,976 million during 1999, reaching Euro 93,855 million (an increase of 34.3%). Net funding over the twelve months came to Euro 13,984 million, of which Euro 7,837 million refers to the banking channel and 6,147 million to Banca Fideuram and Sanpaolo Invest's networks of financial consultants. Total funds under management underwent a revaluation of Euro 9,992 million.

The Group maintained its number one place in the ranking of mutual funds on the domestic market with a share at the end of 1999 of 17.5%. This meant that effective action was taken to counteract the potential decrease that could have resulted from increased competition, as well as from the higher flows of direct and administered funding that is being diverted into asset management schemes by new competitors that entered the market after Sanpaolo IMI. The proportion of equity funds also increased from 24% at the end of 1998 to 38% at December 31, 1999.

The technical reserves of the Group's insurance companies reached a total of Euro 10,500 million, for an inflow of more than Euro 2,800 million during 1999 (an increase of 36.9%). Sanpaolo Vita, Sanpaolo Life and Fideuram Vita overall could claim a market share of premiums written of more than 8%, putting them in second place in absolute terms after Italy's most important insurance group and in first place among the insurance companies owned by banks.

At December 31, 1999, assets under administration were Euro 70,597 million, an increase of 7.5% since the start of the year, mainly due to the substantial revaluation of equity prices in 1999.

Services provided to institutional clients

There was an increase in asset management services provided to institutional clients: at the end of 1999, the portfolios managed by the Group on behalf of insurance companies, banks, pension funds and other entities amounted to Euro 6,600 million, an increase of 34% since the start of the year. In the field of pension funds, where assets exceeded Euro 1,700 million, there was a start of operations in the area of open-ended pension funds, where two products have been launched and that are being distributed by the Bank's branches and by the financial consultants of Sanpaolo Invest and Banca Fideuram.

In light of the high growth potential of the business with institutional clients, the Group set up Sanpaolo IMI Institutional Asset Management SGR, whose capital is split between the Group's asset management companies and Banca IMI.

Direct deposits

Private investors are continuing to switch out of traditional forms of funding and into asset management schemes. This has led to a decline in direct deposits of 6.6% over 1999, ending up at a total of Euro 78,957 million.

This switch into asset management has affected the trend in time deposits: bonds have fallen by 8.7%, while certificates of deposit have fallen by 22.7%; the strong preference on the part of customers for professional management of their savings has also led to a decline in repurchase agreements, which decrease by 57.6%.

The use of current and deposit accounts, on the other hand,increased by 15.8%. This mainly reflects above all the 1999 year-end increase in short-term deposits taken by the Bank's branches in Italy and by the banks operating abroad. The readily available fund deposits of Italian branches, which is the most remunerative portion of total funding, showed an increase of 4.4% at the end of 1999 and of 7% in terms of the average total balance during the year.

Direct deposits by maturity and residence

	1999		**Pro forma 1998** (unaudited)		**Change** 1999/1998	**1998**	
Deposits	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
on demand	33,958	43.0	29,380	34.8	15.6	29,546	30.4
maturing within 12 months	21,386	27.7	26,162	31.0	(18.3)	27,483	28.2
maturing beyond 12 months	23,163	29.3	28,957	34.3	(20.0)	40,369	41.4
- *fixed-rate*	*12,214*	*15.5*	*13,497*	*16.0*	*(9.5)*	*18,413*	*18.9*
- *index-linked*	*10,949*	*13.9*	*15,460*	*18.3*	*(29.2)*	*21,956*	*22.5*
from Italian residents	57,089	72.3	66,058	78.2	(13.6)	75,512	77.5
from residents of other EU countries	14,742	18.7	13,395	15.9	10.1	13,786	14.2
from residents elsewhere	7,126	9.0	5,046	6.0	41.2	8,101	8.3

Customer loans

Customer loans at the end of 1999 amounted to Euro 73,174 million, substantially in line with the figure for 1998.

Loans to customers

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Short-term	26,701	36.5	27,607	37.8	(3.3)	31,765	36.6
Medium- and long-term	44,779	61.2	43,357	59.4	3.3	53,112	61.1
Non-performing loans	1,694	2.3	2,004	2.7	(15.5)	2,012	2.3
Customer loans portfolio	73,174	100.0	72,968	100.0	0.3	86,889	100.0

Households loans increased by 13.4% in 1999 compared to 1998. Personal loans, granted by the Bank and by Finconsumo, a subsidiary, grew by 41%. House-buying loans showed an increase in mortgages on the domestic market of Euro 1,750 million. This market, to which the Group devoted a considerable sales effort, benefited from the favorable trend in the property market. This was partly due to the level of interest rates which were still very attractive for the general public despite the upturn towards the end of 1999.

Loans to customers by counterparty

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Loans portfolio							
Consumers	12,361	16.9	10,901	14.9	13.4	9,656	11.1
Family businesses and non finance-sector companies	43,260	59.1	43,746	60.0	(1.1)	44,551	51.3
Finance companies	6,751	9.2	9,225	12.6	(26.8)	9,280	10.7
Governments and public bodies	9,940	13.6	8,839	12.1	12.5	21,896	25.2
Other	862	1.2	257	0.4	235.4	1,506	1.7
Total customer loans	73,174	100.0	72,968	100.0	0.3	86,889	100.0

Loans to companies and other businesses, showed a 2% decrease. The lending trend was affected not only by the Group's policy to give preference to the return on capital absorbed by each loan, but it was also affected by companies' greater recourse to self-financing and the capital market, as well as early repayment of bank loans by many large corporate borrowers. It is also important to emphasize that the decline in loans to corporate clients mainly concerned finance companies, which decreased by 26.8%, falling as a percentage of total loans over the 1998-1999 two-year period from 13.5% to 9.2%.

Loans to customers by category

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Loans portfolio							
Consumers	12,361	16.9	10,901	14.9	13.4	9,656	11.1
- *Domestic network*	*11,132*	*15.2*	*9,829*	*13.5*	*13.3*	*9,653*	*11.1*
- *overdrafts*	*848*	*1.2*	*758*	*1.0*	*11.9*	*647*	*0.8*
- *personal loans*	*966*	*1.3*	*685*	*0.9*	*41.0*	*459*	*0.5*
- *mortgages*	*8,615*	*11.8*	*7,787*	*10.7*	*10.6*	*8,093*	*9.3*
- *other*	*703*	*1.0*	*599*	*0.8*	*17.4*	*452*	*0.5*
- *Foreign network*	*1,229*	*1.7*	*1,072*	*1.5*	*14.6*	*4*	*0.0*
Family businesses, companies, governments, public bodies and other	60,813	83.1	62,067	85.1	(2.0)	77,233	88.9
- *Domestic network*	*52,333*	*71.5*	*54,523*	*74.7*	*(4.0)*	*68,374*	*78.7*
- *overdrafts*	*7,996*	*10.9*	*7,479*	*10.2*	*6.9*	*8,233*	*9.5*
- *repurchase agreements*	*1,245*	*1.7*	*2,304*	*3.2*	*(46.0)*	*2,378*	*2.7*
- *import/export financing*	*1,290*	*1.8*	*1,359*	*1.9*	*(5.1)*	*1,359*	*1.6*
- *leasing*	*1,580*	*2.2*	*1,339*	*1.8*	*18.0*	*1,330*	*1.5*
- *installment-based loans*	*28,176*	*38.5*	*29,012*	*39.8*	*(2.9)*	*44,563*	*51.3*
- *other*	*12,046*	*16.5*	*13,030*	*17.9*	*(7.6)*	*10,511*	*12.1*
- *Foreign network*	*8,480*	*11.6*	*7,544*	*10.3*	*12.4*	*8,859*	*10.2*
Total customer loans	73,174	100.0	72,968	100.0	0.3	86,889	100.0

Loans to customers by maturity and residence

	1999		Pro forma 1998 (unauditted)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
on demand	12,405	17.0	11,414	15.6	8.7	11,520	13.3
repayable within 12 months	22,322	30.5	22,872	31.3	(2.4)	24,610	28.3
repayable beyond 12 months	36,492	49.9	35,730	49.0	2.1	47,780	55.0
- *fixed rate*	15,451	21.1	15,000	20.6	3.0	20,857	24.0
- *index-linked*	21,041	28.8	20,730	28.4	1.5	26,923	31.0
unspecified duration	1,955	2.7	2,952	4.0	(33.8)	2,980	3.4
to Italian residents	60,999	83.4	62,725	86.0	(2.8)	76,611	88.2
to residents of other EU countries	7,679	10.5	6,764	9.3	13.5	6,799	7.8
to residents elsewhere	4,496	6.1	3,479	4.8	29.2	3,479	4.0

Short-term loans decreased by 3.3% in 1999 compared to 1998, with a significant decline in the portion represented by domestic repurchase agreements (a decreased of 46%). Medium/long-term loans, on the other hand, increased by 3.3%, due to the positive trend in property loans and public works financing. This offset the decline in lending to the financial sector and to large corporate clients.

Market positioning

The movements described above have led to a reduction in the share of the Group’s lending on the domestic market, which decreased from 9.3% to 8.5% in 1999. This contraction affected both short-term loans, which decreased by 0.4 points, and medium/long-term loans, which decreased by 1.2 points.

Market shares

	1999	Pro forma 1998 (unaudited)	1998
	%	%	%
Shares of lending market			
Short-term	5.9	6.3	6.4
Medium/long-term	11.0	12.2	16.5
Total	8.5	9.3	11.4

Doubtful loans

In 1999 Sanpaolo IMI benefitted from a lower flow of doubtful loans due to the improvement in asset quality and better procedures for the recovery of critical positions which led to a further reduction in doubtful loans. Non-performing loans, problem loans, rescheduled loans and those being rescheduled, together with the unsecured loans to countries at risk, decreased to a total of Euro 3,009 million, a decline of Euro 842 million (21.9%) compared to 1998.

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Loans portfolio							
Non-performing	1,694	2.3	2,004	2.7	(15.5)	2,012	2.3
Problem, restructured, in the course of being restructured	1,162	1.6	1,626	2.2	(28.5)	1,626	1.9
Customer loans subject to country risk	48	0.1	107	0.1	(55.1)	107	0.1
Normally-performing loans	70,270	96.0	69,231	94.9	1.5	83,144	95.7
Total customer loans	73,174	100.0	72,968	100.0	0.3	86,889	100.0
Non-performing and under-performing loans to banks	-		4	-	n/a	4	
Loans to banks subject to country risk	105		110	-	(4.5)	110	

Net non-performing loans decreased by 15.5% in 1999 compared to 1998, and were Euro 1,694 million, partly due to collections of Euro 442 million. The proportion of net non-performing loans to total customer loans decreased to 2.3%, compared with 2.7% at the end of 1998. Net of write-offs, coverage has increased from 66.5% to 71%.

Problem loans, rescheduled loans and those being rescheduled, net of adjustments, amounted to Euro 1,162 million, with a decline of 28.5% in 1999 compared to 1998. Such loans as a percentage of total customer loans decreased to 1.6%, compared to 2.2% in December 1998. Total coverage, including write-offs, increased from 33.7% to 42%.

Exposure to countries at risk, due to unsecured cash loans, decreased to Euro 153 million in 1999, of which Euro 48 related to customer loans and Euro 105 million to interbank loans. The reduction during 1999, of Euro 64 million, was mainly due to increasing the percentage writedown of loans to Russia from 60% to 85%. Total coverage of loans to countries at risk increased from 38.9%in 1998 to 54.5% in 1999.

Activities on financial markets

Brokerage

During 1999 Group operations on the financial markets featured a constant emphasis on the risk profile.

Trading activities, carried on by Banca IMI and its subsidiaries, saw the Group strengthen its position on the main international markets. Banca IMI acted as primary dealer in the public debt of Italy, Germany, France, Belgium, Holland, Spain and Greece, and it also consolidated its operations on the secondary market in Polish and Hungarian government securities. Trading activities were mainly geared to taking advantage of arbitrage opportunities, rarely taking direct directional positions. Even though trading increased, especially in equities, this did not entail higher risk profiles than in the previous year.

On the interbank market, Sanpaolo IMI confirmed its position as a leader with the inclusion of the Bank in the Euribor panel, which consists of Europe's top banks. In 1999 the Bank's operations amounted to Euro 350,000 million, of which 171,000 million on the e-MID screen-based market, giving a market share of 4.65%. Interbank business featured a greater recourse of European banks and a more accentuated use of the Group's funding vehicles.

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Investment securities	1,756	9.5	2,341	9.8	(25.0)	2,343	9.1
Dealing securities (1)	16,645	90.5	21,565	90.2	(22.8)	23,385	90.9
Securities portfolio	18,401	100.0	23,906	100.0	(23.0)	25,728	100.0
Deposits with banks	22,145		22,458		(1.4)	23,092	
Funding from institutional banking organizations	4,278		4,345		(1.5)	4,929	
Funding from other banks	23,734		20,796		14.1	22,834	
Derivatives and forward transactions in foreign currencies (at nominal value)	268,741		330,607		(18.7)	346,543	

Securities, interbank position and derivatives

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Investment securities	1,756	9.5	2,341	9.8	(25.0)	2,343	9.1
Dealing securities (1)	16,645	90.5	21,565	90.2	(22.8)	23,385	90.9
Securities portfolio	18,401	100.0	23,906	100.0	(23.0)	25,728	100.0
Deposits with banks	22,145		22,458		(1.4)	23,092	
Funding from institutional banking organizations	4,278		4,345		(1.5)	4,929	
Funding from other banks	23,734		20,796		14.1	22,834	
Derivatives and forward transactions in foreign currencies (at nominal value)	268,741		330,607		(18.7)	346,543	

(1) For 1999, 1998 and pro forma 1998, "Dealing securities" figures include Euro 21 million, Euro 5 million and Euro 5 million, respectively, Sanpaolo Imi shares owned by Banca IMI

The securities portfolio decreased by 23% in 1999 compared to 1998, and amounted to Euro 18,401 million at the end of 1999. This decline affected both the investment portion, which dropped by 25%, and the dealing and treasury portion, which decreased by 22.8%.

Securities by category and maturity

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Debt securities	16,937	92.0	22,705	95.0	(25.4)	24,522	95.3
- Italian government stocks	*9,390*	*51.0*	*15,794*	*66.1*	*(40.5)*	*16,426*	*63.8*
- other	*7,547*	*41.0*	*6,911*	*28.9*	*9.2*	*8,096*	*31.5*
Equities	1,464	8.0	1,201	5.0	21.9	1,205	4.7
Sight securities (including shares)	1,197	6.5	148	0.6	708.8	166	0.7
Short-dated (within 12 months)	3,940	21.4	9,168	38.4	(57.0)	9,663	39.4
Long-dated (beyond 12 months)	11,800	64.1	13,389	56.0	(11.9)	14,692	59.9
- fixed-rate	*5,290*	*28.7*	*7,953*	*33.3*	*(33.5)*	*8,293*	*33.8*
- floating-linked	*6,510*	*35.4*	*5,436*	*22.7*	*19.8*	*6,399*	*26.1*
Quoted securities	14,327	77.9	20,501	85.8	(30.1)	21,187	82.4
Unquoted securities	4,074	22.1	3,405	14.2	19.6	4,541	17.6

Placement and advisory business

The Group reinforced its position in placement and advisory business on the domestic market.

In the bond segment, Banca IMI arranged and took part in the placement of loans for corporate and banking issuers for a total of Euro 4,500 million, 40% more than in 1998. It was also the first Italian bank to carry out a receivables securitization deal by means of a special purpose vehicle.

In the equity segment, Banca IMI acted as global coordinator or sponsor for numerous placements, including: Tiscali, Acea, Italdesign/Giugiaro, Permasteelisa, Mirato and Grandi Navi Veloci. Banca IMI also took part, as a member of the public offer management group, in the placement syndicates for Enel, Autostrade and Banca Monte dei Paschi di Siena; it acted as lead manager in the placement of the Italian tranche of Deutsche Telekom, the first pan-European public offer for sale; and lastly, it handled the private placement of an approximately 19% stake in the capital of Banca Agricola Mantovana.

In addition, Banca IMI increased its corporate advisory business in mergers and acquisitions and other special deals for leading Italian and foreign clients.

Merchant banking

The Group operated in the field of merchant banking through the Bank and, from September, through NHS. Almost Euro 90 million was invested in minority shareholdings and an overseas closed-end investment fund was set up worth Euro 120 million to invest in medium-sized European enterprises.

Equity investments

The Group's investments in companies that are not consolidated on a line-by-line basis amounted to Euro 3,347 million at year end, a net increase of Euro 1,675 million over the year.

Changes in equity investments during the year refer essentially to the following areas of intervention:

- the definition of projects for expansion on the Italian market;
- selective investment in European banks;
- continuing disposals of non-strategic investments.

Non-consolidated equity investments

	1999		Pro forma 1998 (unaudited)		Change 1999/1998	1998	
	(millions Euro)	(%)	(millions Euro)	(%)	(%)	(millions Euro)	(%)
Investmens	3,347	100.0	1,672	100.0	100.2	1,321	100.0
- *carried at equity*	*843*	*25.2*	*959*	*57.4*	*(12.1)*	*571*	*43.2*
- *carried at cost*	*2,504*	*74.8*	*713*	*42.6*	*251.2*	*750*	*56.8*
- *in listed companies*	*2,258*	*67.5*	*541*	*32.4*	*317.4*	*540*	*40.9*
- *in other companies*	*246*	*7.3*	*172*	*10.3*	*43.0*	*210*	*15.9*

Cassa di Risparmio di Firenze

The projects for expansion on the domestic market mainly concerned an agreement to buy a 15% interest in Cassa di Risparmio di Firenze. This stake was sold by Ente Firenze for Euro 387 million, of which Euro 92 million were paid during the year and the remainder in early 2000. The investment comes on top of the 4.1% interest already held by NHS, bringing the Group's total holding in Cassa di Risparmio di Firenze to 19.1%.

Cassa di Risparmio di Firenze has a network of almost 400 branches located mainly in Tuscany, with direct customer deposits at the end of 1999 of Euro 17,731 million and loans of Euro 5,865 million. Net income for the year came to Euro 59 million, while its RoE was 8.5%.

This investment forms part of a wider plan to form a strategic and operational partnership. A stable share holder syndicate able to control the bank has been set up, consisting of Ente Cassa di Risparmio di Firenze, Sanpaolo IMI and Paribas. An operating agreement has also been signed, with Sanpaolo IMI as the Cassa's leading point of reference in the fields of asset management and for initiatives in the corporate segment.

The alliance has also been ratified by Ente Firenze buying a 2.6% interest in Sanpaolo IMI early this year.

The INA-Banco di Napoli operation

During 1999, the Group increased its interest in INA from 3% to 9.2%. On October 8, 1999 Sanpaolo Imi Group reached an agreement with Assicurazioni Generali S.p.A., that will enable Banco di Napoli, indirectly controlled by INA, to integrate with Sanpaolo IMI. See Item 1. "Description of Business – Recent Developments".

The aggregation that Sanpaolo IMI envisages would permit the Group to acquire an important presence in the South of Italy in the area of households and small and medium-sized enterprises: Banco di Napoli is the largest bank in the South of Italy, thanks to a network of 730 branches, direct customer deposits that at the end of 1999 amounted to Euro 23,000 million, customers' financial assets under management of Euro 7,700 million and loans of Euro 15,300 million. The Bank's net income in 1999 came to Euro 131 million, with an RoE of 11%.

Investments in foreign banks

Investments in European banks by the Bank and by Sanpaolo IMI International, its Luxembourg subsidiary, were geared to expanding the range of strategic options in view of possible future transnational alliances, and to taking advantage of purely financial opportunities. Deals entailed the following:

- an increase from 0.46% to 2% in the shareholding held in BSCH, which involved an outlay of Euro 581 million; this interest was further raised to 2.8% in early 2000;
- the purchase of a 0.29% stake in the Royal Bank of Scotland, which involved investing Euro 50 million; it was raised to 0.33% in early 2000;
- the acquisition of a shareholding in Banque Nationale de Paris; part of it was sold off during the year, generating a capital gain of Euro 23 million; at the end of the year, the residual investment amounted to 0.26% of the share capital, for an investment of Euro 90 million; the stake was further reduced to 0.07% in early 2000.

The disposal of non-strategic investments

Total disposals amounted to Euro 725 million, leading to total pre-tax capital gains of Euro 349 million. They included:

- the sale of Sanpaolo IMI's interest in Crediop to the Dexia Group in two tranches. See Item 1. "Description of Business – Recent Developments – Other Developments";
- acceptance of Olivetti's takeover bid for Telecom Italia with a 0.75% stake, proceeds of Euro 448 million and a pre-tax capital gain of Euro 215 million.

Other initiatives

These include:

- taking a 16% interest in Beni Stabili as a result of the Spin-off carried out in October of part of the Sanpaolo IMI Group's real estate activities. It was subsequently raised to 18% through purchases on the market. This investment, equal to Euro 160 million, was prudently written down to Euro 102 million to take account of the share's performance during the second half of the year. In early 2000, the stake was reduced to 16.8%;

- the acquisition of a 9.6% stake in Banca Agricola Mantovana, with an investment of Euro 206 million, as part of the placement of 19% of Banca Agricola Mantovana by Banca IMI.

Changes in equity investments during the year refer essentially to the following areas of intervention:

- the definition of projects for expansion on the Italian market;
- selective investment in European banks;
- continuing disposals of non-strategic investments.

Capital and reserves

Shareholders' equity

Shareholders' equity attributable to the Group amounted to Euro 8,036 million as of December 31, 1999, net of own shares held by the Bank. Movements during the year were as follows:

	(in millions of Euro)
Shareholders' equity (pro forma) as of January 1, 1999	8,668
Decreases	
- Dividends	(652)
- Real estate spin-off	(701)
Increases	
- Differences	6
- Change in reserve for general banking risks	1
- Net income for the year	1,050
Shareholders' equity as of December 31,1999	8,372
- Own shares in portfolio	(336)
Shareholders' equity as per reclassified balance sheet	8,036

Own shares

The own shares of Sanpaolo IMI held by the Group as of December 31, 1999 amounted to 28,988,157 shares, equal to 2.06% of the share capital, carried in the balance sheet at Euro 356.5 million, with an unrealized capital gain of around Euro 100 million.

Transactions in Sanpaolo IMI shares by the Group during the year were as follows:

- at the end of 1998, the Bank did not hold any of its own shares. During 1999, it bought 27,470,250 shares (for a nominal value of Euro 76.9 million, paying a total of Euro 336.1 million) and sold 38,750 shares (for a nominal value of Euro 0.1 million and total proceeds of Euro 0.5 million). At the end of 1999, the Bank held 27,431,500 shares (with a nominal value of Euro 76.8 million, at a carrying value of Euro 335.6 million);

- at the end of 1998, Banca IMI held 354,124 Sanpaolo IMI shares (nominal value Euro 1 million, carrying value Euro 5.3 million). During the year, it bought 12,970,956 shares (nominal value Euro 36.3 million, paying a total of Euro 191.5 million) and sold 11,768,423 shares (nominal value Euro 32.9 shares and total proceeds of Euro 175.9 million). At the end of the year, Banca IMI held 1,556,657 shares (nominal value Euro 4.4 million, at a carrying value of Euro 20.9 million);
- at the end of 1998, IMI Sigeco UK did not hold any Sanpaolo IMI shares. During the year, it bought 1,079,021 shares (nominal value Euro 3 million, paying a total of Euro 16.14 million) and sold the same quantity of shares (for proceeds of Euro 16.15 million). At the end of the year, IMI Sigeco UK did not hold any Sanpaolo IMI shares.

In the first few months of 2000, the number of own shares held fell substantially as a result of the transfer of 28,050,000 shares (2% of the share capital) to Ente Firenze as part of the alliance formed between Sanpaolo IMI and the Cassa di Risparmio di Firenze. As of March 28, 2000 the own shares held by the Group amounted to 4,977,632 (0.35% of the share capital).

Regulatory capital and capital adequacy

The Sanpaolo IMI Group meets the solvency requirements set by Bank of Italy.

(in millions of Euro)

	1999	1998
Shareholders' equity for supervisory purposes		
Tier 1 capital	7,505	8,045
Tier 2 capital	1,255	1,277
less: prescribed deductions	(737)	(116)
Total capital	8,023	9,206
Weighted assets		
Lending risk	70,838	72,775
Market risk	6,637	9,500
Other requirements	500	700
Total assets	77,975	82,975
Capital adequacy ratios		
Tier 1 capital / Total risk-weighted assets	9.6%	9.7%
Total capital / Total risk-weighted assets	10.3%	11.1%

The ratio between regulatory capital and total assets weighted for lending risk and market risk stands at 10.3%. The solvency ratio for lending risks alone is 11.3% compared with the 8% minimum required by the regulatory authorities. The ratio between Tier 1 capital and total risk-weighted assets is 9.6%.

The Euro

Having successfully completed the first stage of the project, which allowed customers to operate in Euro from January1, 1999 further steps were taken during the year to offer a series of dual currency Euro/Lira products and services.

The actions expected to take place in 2000–2001 will be essentially to the IT system. They will be geared to introducing the Euro for management reporting purposes, followed by the change-over from the dual currency system to the Euro. Preparatory work is also taking place to the various aspects connected with introducing Euro banknotes and coins from January 1, 2002, taking into account the recent decision to reduce the period of double circulation.

The charges incurred in implementing this project amount to Euro 43 million, of which 39 million were booked in previous years. The residual charges still to be amortized in future years amount to Euro 15 million.

The year 2000

The Sanpaolo IMI "Year 200 Project" was completed successfully. The date change did not cause any interruption or disruption. Due to the update made to the IT systems and to internal equipment. This positive result was also due to the involvement and cooperation of suppliers and counterparties and the simulations carried out on all critical systems. The project can now be considered completed, although close attention is been kept on the situation for any late manifestations of the millennium bug. Sanpaolo IMI does not expect to incur any problems deriving from the year 2000 in the future.

The costs incurred by the Bank for the entire project came to Euro 17 million, of which 6 million were booked in prior years and 11 million in 1999, almost 10 million of which have been expensed during 1999. In addition, there were internal labor costs equal to 25 employees working on the Year 2000 Project full time for one year.

The total costs borne by subsidiaries as of December 1999 amounted to Euro 11 million.

ITEM 9A. RISK MANAGEMENT

The Group attaches high importance to the management and control of risks. The principles underlying this activity are clear lines of responsibility for risk-taking, risk-measurement and control systems consistent with best practice at international level, and organizational separation of the control functions from the operating business units. The extent to which the Group properly identifies, assesses, monitors and manages its risks is critical to its soundness and profitability.

The policies regarding the acceptance of credit and financial risks are formulated by Sanpaolo IMI's Board of Directors and Executive Committee, which are advised on these matters by the specialized Financial Risks and Credit Risks Committees.

Sanpaolo IMI exercises top-level risk management and control functions, including that of final decision in cases of major exposure. In this connection, it is supported by the Risk Management unit which reports directly to one of the managing Directors and a Risk Control Unit which is part of the accounting and planning function.

The business units whose operations generate credit or financial risks act within prescribed limits and are equipped with their own control functions.

Market Risk

The Group’s primary market risks in its non-trading activities are due to changes in interest rates and in its non-trading equity investments. In its trading activities, the Group’s market risks are to changes in interest rates, foreign currency rates and equity prices. The most significant of these risks is interest rate risk.

Organization

The central role in the management and control of financial risks rests with Sanpaolo IMI's Board of Directors, which sets the strategic direction and guidelines for exposures to market risk, allocates capital on the basis of the expected risk/return profiles, sets the operating limits for Sanpaolo IMI and defines the guidelines to be followed by the subsidiaries.

The Financial Risks Committee defines the criteria and techniques for measuring risk, proposes the operating limits of Sanpaolo IMI and its business units and monitors the risk profiles of the business units throughout the Group. The Committee comprises the Managing Directors, the heads of the units tasked with the acceptance and control of risks, and the head of Risk Management. It meets at least once a month and reports directly to the Board of Directors.

The Risk Management unit is responsible for developing the methods for monitoring business risk. It is supported in this connection by a Financial Analysis Development unit. The Risk Management unit also makes recommendations regarding the system of operating limits imposed on Sanpaolo IMI's and the Group's various lines of business.

The Risk Control unit measures the existing exposures of the various operating units, and monitors their compliance with the limits set by the Board of Directors, Executive Committee and Financial Risks Committee.

The individual business units measure financial risks, and apply a system of limits that are consistent with the top-level system used by Sanpaolo IMI.

Measurement techniques

The principal methods used by the Group to measure financial risk are:

- Value at Risk ("VaR");
- Sensitivity analysis;
- Worst-case scenario.

VaR modeling is a broad brush statistical technique that estimates the magnitude of loss that would be expected in a portfolio over a given period of time which is statistically unlikely to be exceeded more often than once in a given time period. Sanpaolo IMI uses VaR models assuming a 10-day holding period and a confidence interval of 99%. A VaR figure of Euro 1 million on the basis of a 10-day holding period and a 99% confidence interval means that Sanpaolo IMI is statistically likely to suffer a loss of more than Euro 1 million over ten consecutive trading days only 1% of the time, that is, for only one ten consecutive trading day period out of 100 such periods.

All of Sanpaolo IMI's VaR models discussed below use variance-covariance matrices based on historical data from the last 250 trading days. The risk factors considered are for each currency in terms of short and long-term interest rates, exchange rates and the behavior of equity prices.

Any VaR results should be interpreted in light of the limitations of the technique, which include:

- Historical data may not accurately predict the future. In particular VaR using a limited historical data set may fail to capture the risk of possible extreme adverse market movements.
- Changes in risk factors may not have a normal distribution. In particular such an assumption is poorly suited for modeling risks presented by non-linear events such as extreme market moves and non-linear instruments such as options.
- VaR modeling of interest rate risk does not adequately capture the varying basis risk in different products as a result of the separation of yield curve as interest rate change.

VaR results are not a guarantee of Sanpaolo IMI's ability to limit its market risk. Sanpaolo IMI cannot be certain that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in 100 ten-day trading intervals.

Sanpaolo IMI management understands the limitations inherent in VaR and other statistical modeling techniques and, as a result, management does not plan to rely solely on VaR in its risk management program.

The sensitivity analysis (applied to Asset and Liability Management) quantifies the effects on the fair value of a financial portfolio of adverse changes in the relevant risk factors. Interest-rate risk is defined as the loss or gain on a portfolio occasioned by a parallel, uniform shift of 100 basis points in the interest-rate curve. The values obtained for each currency are combined using a simplified correlation matrix. The volatility risk associated with non-linear positions is estimated on the basis of an increase of 100 basis points in implied volatility.

The worst-case scenario approach (applied to trading activities) is different from the value-at-risk method in that it does not rely on probability calculations: it determines not the expected value of the portfolio, but rather the worst case value generated by applying several possible scenarios, which have been designed to depict the effect of a significant shock to the market parameters over a one-day holding period, and by aggregating in absolute terms any losses stemming from different sources of risk (including interest rate risk, foreign exchange risk, volatility risk and price risk). The use of simulations is necessary first of all to take fully into consideration the non-linear profiles of option pay-offs, which are an integral part of trading activity, and, secondly, to reflect possible breakdowns in correlations. The shock values that are assigned to the different risk factors are determined using a conservative approach. The objective of this approach is to quantify and limit the maximum potential loss that could emerge in extreme market conditions.

Estimated Maximum Potential Loss is only a statistical tool used to obtain estimates and is not a guarantee of Sanpaolo IMI's ability to limit its market risk. Sanpaolo IMI cannot be certain that losses will not exceed the Estimated Maximum Potential Loss indicated or that scenarios that are more adverse than the worst-case scenario used will not occur.

The measurement and control system operates at two levels:

- At the individual company or operating unit, using sensitivity analysis and worst-case simulation. Linked to these models is a detailed system of operating limits in the form of maximum levels of exposure at each of the reporting levels in the risk-taking organization structure.
- At Group level, the Risk Control unit evaluates the overall risk using VaR techniques. These provide a consistent basis for monitoring the risk levels arising from financial activities across the various companies and business units, and for integrating the risk measurements carried out at local level.

The Group is still in the process of implementing a plan aimed at increasing the level of sophistication of this system by standardizing the measurement techniques adopted. This plan includes changes to both information systems and the organization. An important aspect of this plan is the provision of a single IT platform for the Group as a whole, to ensure system compatibility (without detracting from the operating independence of the various companies), while providing a Group-level overview of the entire range of operations (non-trading and trading book).

Non trading activities

Asset and Liability Management

The financial risks generated by the Group's Asset and Liability Management activities are monitored by means of *Sensitivity Analysis. VaR* measurement was also started during the year and it is currently being tested.

During 1999, the potential loss on the fair value of the Group's Asset and Liability Management activities, measured according to the *Sensitivity Analysis* technique, showed an average of Euro 105.4 million, with a minimum of Euro 92.8 million and a maximum of Euro 120.8 million. This is substantially lower than the previous year (when the average was Euro 152.8 million), thanks to the Bank's strategy of positioning free capital at floating rates. Forecasting an upswing in interest rates, which did take place, the Bank in fact systematically hedged the medium/long-term fixed-rate position so as to protect its market value.

The *VaR* of the lending business showed an average (from May 1999 to the end of the year) of Euro 194.9 million.

The exchange risk generated by the lending business during the year was very low.

Sensitivity Analysis - Asset and Liability Management activities

	1999 (Euro/mn)	1998 (Euro/mn)
Average	105.4	152.8
Low	92.8	120.0
High	120.8	188.0
Year-end	94.4	177.6

Equity investments in non-Group listed companies

The market value as of December 31, 1999 of the equity investments held by the Bank and by Sanpaolo IMI International in listed companies that are not part of the Group, excluding the merchant banking portfolio, amounted to Euro 2,359 million, with unrealized capital gains over book value of Euro 346 million.

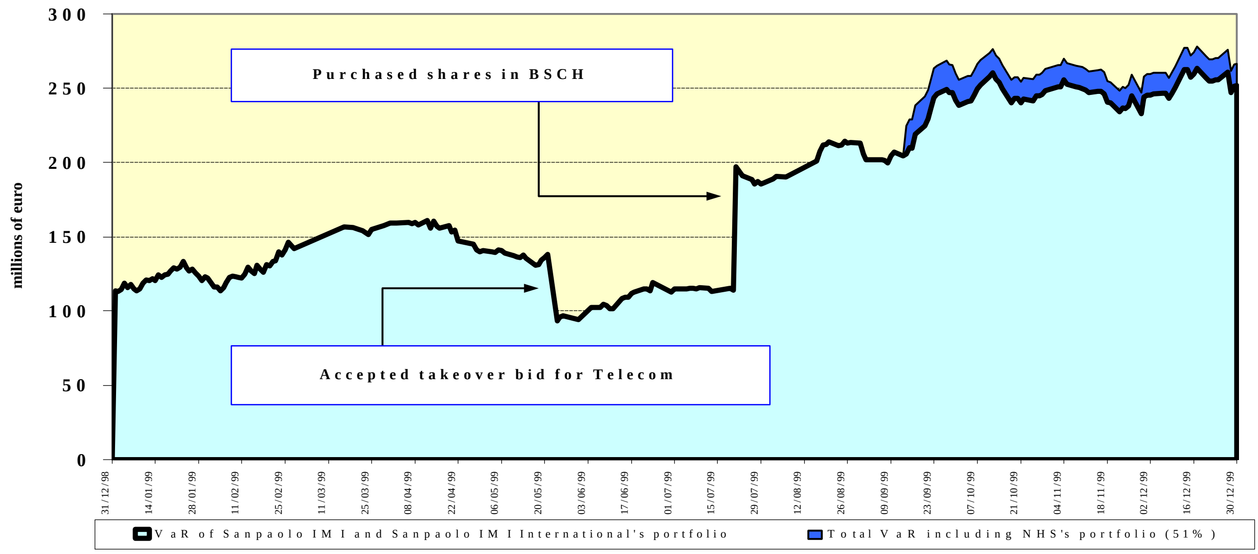
In September, Sanpaolo IMI transferred its merchant banking activities to NHS. At the year end, the subsidiary's portfolio of quoted investments, at market value, amounted to Euro 319 million, with unrealized capital gains over book value of Euro 74 million.

The *VaR* technique is used to monitor the market risk of the investment portfolio, though fluctuations in its value do not directly affect the Group's statement of income, given that such investments are shown at cost.

The *VaR* of quoted non-Group investments in 1999 averaged Euro 192 million, with a lowest value of Euro 93 million. The highest value of Euro 263 million was reached at the year end, which was justified by the higher volume of investments made, the general increase in share prices and their volatility in the latter part of the year. The average level of *VaR* recorded by NHS, for the portion pertaining to Sanpaolo IMI, was Euro 15 million.

The following graph shows the trend in *VaR* during the course of 1999 for the Bank and Sanpaolo IMI International and, from September, for NHS.

VaR trend of the equity investments portfolio



The following table compares 1999 risk measurements with those of 1998. The increase is largely due to the growth in the investment portfolio during the year.

VaR – equity investments portfolio

	1999 (Euro/mn)	1998 (Euro/mn)
Average	192	88
Low	93	66
High	263	114

Trading activities

What is being measured here are the trading activities, mainly focused on securities (fixed-interest and equities), exchange rates and derivative contracts.

Within the Sanpaolo IMI Group, the only unit authorized to take on market risks as part of its trading activities is Banca IMI. In 1999 the process of concentration of trading activities into Banca IMI was concluded and the consequent specialization of the Bank in the management of the financial risk related to lending activities.

The *VaR* of the trading activities during 1999 oscillated between of the lowest value of Euro 4.3 million and the highest value of Euro 24.2 million, with an average of Euro 11.9 million, as shown in the next table.

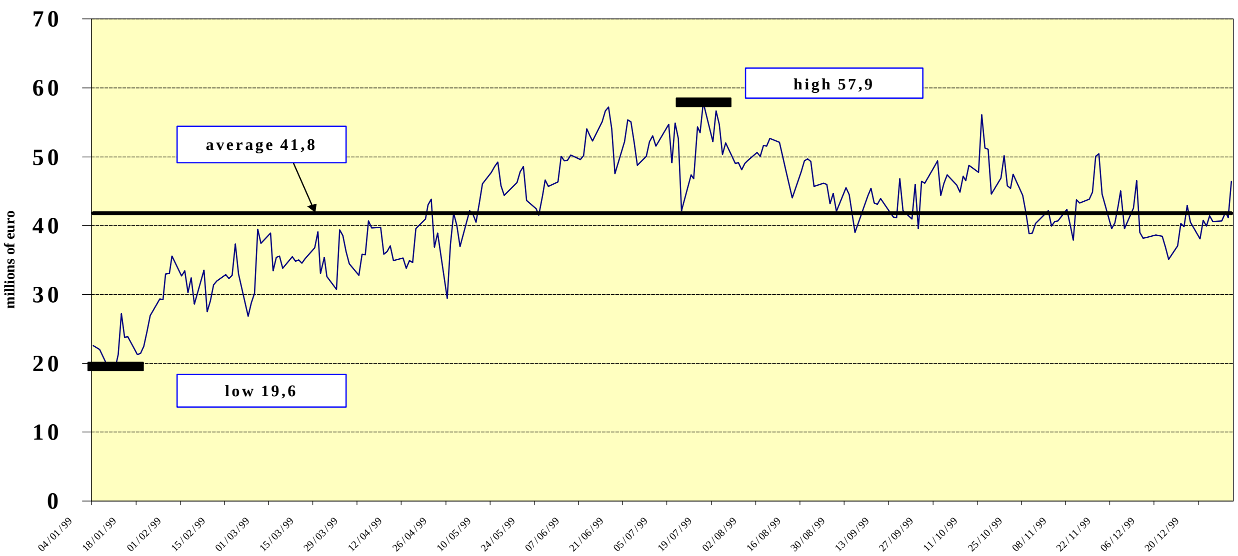
VaR - trading

	1999				1998
	Average **(Euro/mn)**	Low **(Euro/mn)**	High **(Euro/mn)**	12/31 **(Euro/mn)**	12/31 (Euro/mn)
Interest rate risk	5.3	2.3	8.9	11.9	7.8
Exchange rate risk	0.5	0.4	0.6	0.0	0.4
Share price risk	9.7	3.6	21.7	8.7	9.2
Diversification effect	(3.6)	(2.0)	(7.0)	(6.0)	(3.6)
Total	11.9	4.3	24.2	14.6	13.8

In addition to *VaR*, the *Worst Case* technique is also used to monitor the impact of potential losses that might arise in extreme circumstances.

The evolution in the maximum potential daily loss shows an increase in potential risks during the first part of the year, reaching the highest point of approximately Euro 58 million in July, then decreased gradually to reach the yearly average of Euro 42 million.

Trading activities - Maximum potential daily loss



Backtesting demonstrated that the measurement techniques are very conservative. In no case the losses actually incurred exceeded the estimated potential daily exposure, in terms of *VaR* and *Worst Case*.

Credit risk management and control

Organization

The Group is organized in such a way as to maximise the efficiency of the credit risk management and control process by means of:
• the allocation of precise responsibilities for the management of credit risk to the individual business units
• a distinct separation between credit risk management and control
• a specific Loan Recovery Department, to handle non performing loans as efficiently as possible.

The business units that grant credit to customers have a certain level of approval power as defined by the Board of Directors. In particular, as regards the loans granted by the Commercial Banking division, the lending process is split into precise lines of responsibility for the granting and management of loans, with rising approval levels by branch, area and division. This process was revised during 1999, with the definition of a loan policy and a system of loan classification, as well as new credit line proposal procedure.

Proposals in excess of the approval limit of the Heads of the Corporate Areas have to be approved by the Joint Managing Directors, the Credit Committee, the Executive Committee or the Board of Directors, depending on the amount involved.

As regards for credit risks vis-à-vis financial institutions, a special committee was set up during 1999 consisting of the Managing Directors, the heads of the units taking on and controlling the risks, and a representative of the Risk Management department – which has responsibility to decide on the maximum credit lines to be granted by the Group to individual counterparties and to divide these limits into sublimits to be assigned to the individual Group companies. A special unit, the Financial Institution Credit Line department, was set up for this purpose. Such unit has the task of doing preliminary investigations and monitoring the risks taken versus financial counterparties by the various business units of the Bank and of the Group.

As for country risk, a committee is about to be formed which will have the task of deciding on credit limits for each risky country and to allocate the related ublimits to the Group’s Business Areas.

The risk management and control structure are the following:

- the Risk Management department is responsible for the definition, updating and verification of the measuring techniques used by the Bank and by the Group as a whole, ensuring that they are constantly in line with the industry best practice. It is also responsible for analysing the risk profile of the Bank and the Group and for proposing any corrective action.
- the control structures operating within the individual Business Areas are responsible for measuring and monitoring their portion of the loan book. Given the size of the loan book in their area, the Credit Control department of the Commercial Banking division is particularly important.
- Lastly, the Risk Control department is responsible for measuring the exposure of larger borrowers, checking the measurements carried out by the risk control departments in the various business units for consistency and accuracy, and ending the Bank’s top management summary reports on changes in loan quality and on the use of capital by the business units.

Measurement techniques

A series of instruments has been developed to ensure analytic control over the quality of loans to customers and financial institutions, as well as of exposures to country risk.

With reference to loans to customers, various grading models have been developed. These differ depending upon size and industry sector of the customer. These models allow to summarize the counterparty's credit quality as a single measurement, known as a rating, which reflects the risk of insolvency over the next twelve months. By means of statistical calibrations, these ratings have been rendered totally comparable with those done by the official rating agencies, forming one overall scale of reference. Backtesting analyses carried out to date, comparing insolvency forecasts with actual defaults, have confirmed that the models used are reliable.

As regards the Commercial Banking department's loan book, i.e. households, small businesses and SMEs, credit quality management used a system of classifying customers into categories, based on an evaluation made by the loan supervisors. The risk categories are specifically linked to the frequency of credit line reviews and the recovery actions. Control over credit quality uses a scoring system, based, like the grading system, on financial and behavioral indicators, though it is geared not so much to estimating the probability of insolvency, but to giving an early warning of any anomalous situations.

For banking and financial counterparties has been devised a scoring system which classifies financial institutions with credit lines on a scale consistent with those used by the rating agencies. The risk class constitutes the basic level of information, which is integrated by the type and duration of the transaction, as well as by any guarantees that are given. All of this leads to the setting of maximum credit limits for each counterparty.

Lastly, with reference to country risk, a rating is assigned on the basis of the ratings and scores provided by specialized institutions and by internal evaluations.

These ratings are not just a direct instrument to monitor the credit risk portfolio, but also a primary element for the credit risk portfolio model, which summarizes the information on asset quality in risk indicators, including the expected loss and capital at risk. The latter is defined as the maximum potential loss that the Bank could incur with a confidence level of 99.95%.

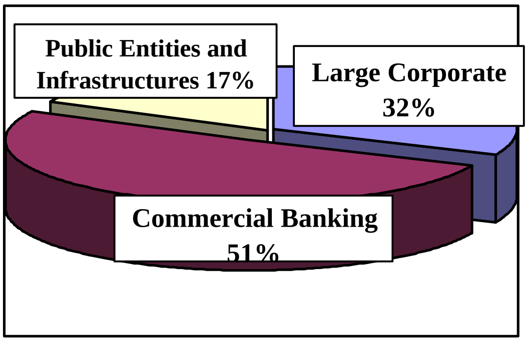
Sanpaolo IMI credit risks

The control instruments discussed above have been developed starting with the Bank, which on a risk weighted assets basis, handles 85% of the Group's lending risks.

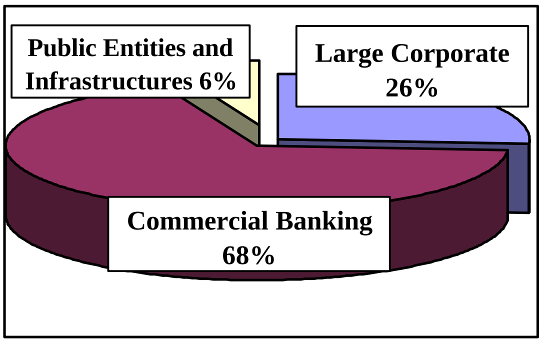
Analytical ratings are available for more than two thirds of the counterparties contained in the Bank's loan portfolio, in terms of exposure; the unrated portion of the portfolio is essentially made up of households. As regards the analytical ratings, just over half of the them are internal ratings, while the rest are the work of specialised rating agencies. They reveal a high level of credit quality – more than 80% of the loans are "investment grade" – with a steady improvement visible throughout the period.

As for customer loans, measurement of the capital at risk, meaning credit risk including country risk, came to Euro 2,430 million at the end of the year, around 3.4% of the drawn down portion of credit lines. The following charts show that two thirds of this amount is allocated to the Commercial Banking division, while the rest is split between Large Corporate and Government Agencies and Infrastructures, which have a lower risk profile. Available figures also show a general trend towards a reduction in the level of portfolio risk.

Loans by Area of Business



Risk capital by Area of Business



The management and control of operating risks

Operating risks are classified into two categories: "business risk" and "event risk".

Business risk is the risk of incurring losses as the result of changes in the macro or microeconomic scenario able to jeopardise the company's ability to generate revenue, typically by reducing operating volumes or eroding margins. It is evaluated by breaking down the activities of the business areas into business sectors (e.g. EDP, consulting, retailing, etc.), on the basis of the respective costs and revenue structures. The business areas are then allocated a level of capitalisation in line with the norm for companies operating in the same type of activity.

Event risk, on the other hand, is defined as the risk of incurring losses as a result of four macro categories of events: fraud, non performance of contractual liabilities, weaknesses in internal control or in information systems, and natural calamities.

A database of significant events that took place in the last ten years has been used for each category, from which it has been possible to quantify the impact in terms of losses from public sources of information.

The empirical distributions of losses calculated in this way are estimated by means of distribution theories according to the extreme value theory. The capital at risk is identified as the minimum amount, net of any insurance cover, that is needed to cope with the maximum potential loss with the confidence level of 99.95%. This technique also provides for the application of a correction factor to take account of the effectiveness of internal controls.

It should be pointed out that these methods have been developed not so much to provide the Bank with an operating risk management system, but rather to allocate an adequate amount of capital to the Business Areas and to the Group as a whole. Operating risks are controlled by defining internal rules and procedures and having the Internal Audit department check that they are complied with.

ITEM 10 – DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Board of Directors

The following table sets forth, as of June, 6, 2000, the names of the members of the Board of Directors (the "Board") of Sanpaolo IMI, their current position, and the year of appointment as Director. The current Board's mandate will expire as of the date of the Shareholder's General Meeting called to approve the financial statements for the year ending December 31, 2000.

NAME	AGE	POSITION	APPOINTED
Luigi Arcuti	75	Chairman (1)	1998
Luigi Maranzana	59	Managing Director (Chief Executive Officer) (1)	1997
Rainer Stefano Masera	56	Managing Director (Chief Executive Officer) (1)	1997
Carlo Albani Castelbarco Visconti	73	Director	1998
Emilio Botin	65	Director	1995
Alberto Carmi	76	Director	2000
Giuseppe Fontana	46	Director	1998
Gabriele Galateri di Genola e Suniglia	53	Director (1)	1997
Juan Rodriguez Inciarte	47	Director (1)	1997
Virgilio Marrone	53	Director	1998
Mario Masini	55	Director	1998
Iti Mihalich	68	Director (1)	1997
Emilio Ottolenghi	68	Director	1995
Stefano Preda	50	Director (1)	1998
Enrico Salza	63	Director (1)	1998
Antonio Sclavi	60	Director (1)	1999
Alessandro Vercelli	55	Director	1999
Remi Francois Vermeiren	60	Director	1998

(1) Members of the Executive Committee.

Executive Officers

The following table sets forth the executive officers of Sanpaolo IMI as of June, 6, 2000, their age and their positions with Sanpaolo IMI.

NAME	AGE	POSITION	APPOINTED
Luigi Maranzana	59	Managing Director and General Manager (Chief Executive Officer)	1997
Rainer Stefano Masera	56	Managing Director and General Manager (Chief Executive Officer)	1998
Enrico Fioravanti	62	Deputy General Manager (Chief Legal Officer)	1998
Piero Gavazzi	46	Deputy General Manager (Chief of Personal Financial Services)	1998
Amadio Lazzarini	57	Deputy General Manager (Chief of Operations)	1997
Bruno Picca	50	Deputy General Manager (Chief Financial Officer)	1997
Vittorio Serafino	49	Deputy General Manager (Chief of Commercial Banking)	1998

Pursuant to Italian law, in addition to appointing the Board of Directors, shareholders appoint a Board of Statutory Auditors which is composed of five auditors; two alternate auditors are also appointed. At least two of the members of the Board of Statutory Auditors must be elected by minority shareholders. In case any of the statutory auditors ceases for any reason to serve in such capacity, the alternate auditor automatically replaces him until the next shareholders' meeting, at which a replacement will be appointed by the shareholders.

The statutory auditors are called to serve for a three-year term and may be reappointed. Statutory auditors are required to attend Board of Directors meetings, Executive Committee meetings and General Meetings of Shareholders.

The Board of Statutory Auditors is responsible for reviewing the management of a company and controlling the compliance with laws and a company's By-laws. In addition, the Board of Statutory Auditors checks upon the adequacy of the company's structure, of the internal review mechanisms, and of the book-keeping system in place. Also, the statutory auditors are responsible for reviewing the exchange of information system between the parent company and its subsidiaries, to ensure compliance with the reporting requirements of the law.

The following table sets forth, as of June 6, 2000, the names of the members of the Board of Statutory Auditors of Sanpaolo IMI, who were designed by the General Meeting of Shareholders on April 30, 1999, for a three-year term.

NAME	AGE	POSITION
Mario Paolillo	69	Chairman of Board of Auditors
Aureliano Benedetti	64	Auditor
Maurizio Dallocchio	42	Auditor
Angelo Miglietta	38	Auditor
Ruggero Ragazzoni	60	Auditor
Carlo Pasteris	73	Alternate Auditor
Alessandro Rayneri	68	Alternate Auditor

Independent Auditors

Sanpaolo IMI's Consolidated Financial Statement for the year ended December 31, 1999 were audited by Arthur Andersen S.p.A., independent auditors. Arthur Andersen S.p.A. have been appointed independent auditors of Sanpaolo IMI on April 30, 1998 for a three-year term.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

The following tables set forth the compensation of Directors, Statutory Auditors and General Managers of Sanpaolo IMI for the year ended December 31, 1999.

DETAILED COMPENSATION *(in thousands of Euro)*

Name and surname	Position held	Term of office	Compensation	Benefits in kind	Bonuses and other incentives (1)	Other emoluments (3)
ARCUTI Luigi	Chairman (2)	1998/2000	319			28
ALBANI CASTELBARCO VISCONTI Carlo	Director	1998/2000	58	-	-	-
BOTIN Emilio	Director	1998/2000	40	-	-	25
FABRIZI Pier Luigi	Director (2)	1/1 - 15/6/99	39	-	-	25
FONTANA Giuseppe	Director	1998/2000	59	-	-	35
GALATERI DI GENOLA Gabriele	Director (2)	1998/2000	84	-	-	-
INCIARTE Juan Rodriguez	Director (2)	1998/2000	72	-	-	-
GRONCHI Divo	Director	1/1 - 16/5/99	17 (4)	-	-	-
MARANZANA Luigi	Managing Director (2)	1998/2000	241	-	362	- (a)
	General Manager		413	3	-	-
MARRONE Virgilio	Director	1998/2000	73 (5)	-	-	26 (5)
MASERA Rainer Stefano	Managing Director (2)	1998 - 2000	241	-	362	- (b)
	General Manager		420	20	-	-
MASINI Mario	Director	1998/2000	59	-	-	-
MIHALICH Iti	Director (2)	1998/2000	85	-	-	25
OTTOLENGHI Emilio	Director	1998/2000	59	-	-	17
PREDA Stefano	Director (2)	1998/2000	88	-	-	29
SALZA Enrico	Director (2)	1998/2000	86	-	-	-
SCLAVI Antonio	Director (2)	25/5/99 - 2000	39	-	-	-
VERCELLI Alessandro	Director	22/6/99 - 2000	21	-	-	-
VERMEIREN Remi François	Director	1998/2000	54	-	-	25
JONA CELESIA Lamberto	Chairman of Statuary Auditors	1/1 - 30/4/99	23	-	-	108
PAOLILLO Mario	Statutory Auditor	1/1 - 30/4/99	80	-	-	83
	Chairman of Statuary Auditors	1/5/99 - 2001				
BENEDETTI Aureliano	Statutory Auditor	1999 - 2001	59	-	-	66
DALLOCCHIO Maurizio	Statutory Auditor	30/4/99 - 2001	43	-	-	-
MIGLIETTA Angelo	Statutory Auditor	1999 - 2001	61	-	-	6
RAGAZZONI Ruggero	Statutory Auditor	1999 - 2001	60	-	-	35

(1) The Members of the Board of Directors, other than the Manager Directors (who were awarded the bonuses indicated in the table) are entitled to a bonus amounting to Euro 1,049 thousand, based on the Group's results. The amount to be distributed to each member has been calculated on the basis of each Director's attendance and participation rate to the Board meetings.
(2) Members of the Executive Committee
(3) Remuneration from subsidiary companies
(4) Paid to Monte dei Paschi di Siena SpA
(5) Paid to IFI SpA
(a) Euro 27 thousand paid to SANPAOLO IMI
(b) Euro 26 thousand paid to SANPAOLO IMI

In addition, the aggregate compensation for the year ended December 1999 for the five executive officers other than the Managing Directors was Lire 5,988 billion (Euro 3,093 million) including the compensation of one Executive Officer who is no more in charge. The above mentioned compensation includes profit bonus for about Lire 2,308 billion, Euro 1,191 million.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT

Stock option plan for the year ended December 31, 1999

Implementing the shareholders' resolution passed at the meeting held on July 31, 1998, on February 9, 1999, the Bank's Board of Directors launched a stock option plan, structured as follows:

- *Beneficiaries*: the Managing Directors and 56 top managers within the Group, as identified by the Managing Directors with the Chairman's agreement.
- *Number of Options*: 7,000,000 options to buy 7,000,000 shares.
- *Options assigned*: 6,772,000, of which 370,000 to each of the Managing Directors; 1,092,000 to a group of five executive officers other than the Managing Directors.
- *Duration*: three years from January 1, 1999.
- *Exercising options*: a third of the options can be exercised after the shares become ex-dividend for the financial year 1999, another third when they become ex-dividend for the financial year 2000 and the final third they become ex-dividend for the financial year 2001. Options not exercised will expire by March 31, 2003.
- *Subscription price*: initially set at Euro 12.7746, which was the average market price of Sanpaolo IMI shares in the last quarter of 1998; subsequently adjusted to Euro 12.3960 to take account of the Spin-off of Beni Stabili in October 1999.
- *Increase in share capital and impact on net equity*: if all 6,772,000 options were to be exercised, this would lead to an increase in share capital of Euro 19 million (0.48%), booking additional paid-in capital of Euro 65 million.

Restrictions: exercising options may be subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the options and the role of the beneficiaries in the organization.

As of June 16, 2000, Sanpaolo IMI's executive officers and Managing Directors had exercised 298,250 options. As of the same date an additional 956,000 options had been exercised by other managers. Following such exercise, Sanpaolo IMI's share capital will be increased from Euro 3,926,117,854.4 to Euro 3,929,629,754.4, equal to 1,403,439,198 Shares.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

See Note 30 to the Consolidated Financial Statements.

PART II

ITEM 14 DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None.

PART IV

ITEM 17. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 18. FINANCIAL STATEMENTS

Not applicable

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ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) The following consolidated financial statements and related schedules, together with the report of Arthur and Andersen thereon, are filed as part of this Annual Report:

(b) Exhibits

1.1 Revised By-laws of Sanpaolo IMI S.p.A.

SIGNATURES

Pursuant to the requirements of section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date June 28, 2000

SANPAOLO IMI S.p.A.

By: /s/ Bruno Picca

Name: Bruno Picca
Title: Chief Financial Officer

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS 1999

Report of Independent Public Accountants

To the Stockholders and the Board of Directors of
Sanpaolo IMI S.p.A.:

We have audited the accompanying consolidated financial statements of Sanpaolo IMI S.p.A. (the "Bank", formerly Istituto Bancario San Paolo di Torino Istituto Mobiliare Italiano S.p.A.) and Subsidiaries (collectively referred to as "Sanpaolo IMI" or the "Group") comprising the consolidated statements of condition of Sanpaolo IMI S.p.A. and Subsidiaries as of December 31, 1998 and 1999 and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the three years ended December 31, 1997, 1998 and 1999. The preparation of these financial statements is the responsibility of Sanpaolo IMI's directors. Our responsibility is to express an opinion on these consolidated financial statements taken as a whole based on our audit. We did not audit the financial statements of certain subsidiaries and of certain enterprises in which the Bank has a significant influence, which collectively represent 21% and 26.8% of consolidated total assets as of December 31, 1998 and 1999, respectively, and 4.5%, 18% and ..% of consolidated interest income and similar revenues for the years ended December 31, 1997, 1998 and 1999, respectively. These statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entity, is based solely on the reports of other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Italy, which are substantially consistent with those in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Accounting practices used by Sanpaolo IMI in preparing the consolidated financial statements referred to above conform with generally accepted accounting principles in Italy, but do not conform with accounting principles generally accepted in the United States. A description of these differences and the reconciliation of consolidated net income and stockholders' equity to U.S. generally accepted accounting principles is set forth in Note 31.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanpaolo IMI S.p.A. and Subsidiaries as of December 31, 1998 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles in Italy applied on a consistent basis.

For a better understanding of the consolidated financial statements, attention is drawn to the following information and matters, more fully described in the explanatory notes:

(a) The tax on stockholders' equity (Lire 87 billion for the Group's share for the period ended December 31, 1997) is charged, by Sanpaolo IMI, against stockholders' equity when paid, as permitted by Decree No. 394/92, converted into Law No. 461/92. In 1998 the tax on stockholders' equity was eliminated.

(b) In the preparation of the consolidated financial statements Sanpaolo IMI has modified certain accounting criteria with respect to those used in the preceding year. In particular in 1998 Sanpaolo IMI changed the valuation method used for trading securities in organized markets from lower of cost or market to market.

Further in 1998, in the context of the process of convergence with international accounting principles, the accounting treatment of problem loans has been integrated through the introduction of the concept of evaluating problem loans to the lower of contract or net present value.

(c) Through a deed dated October 12, 1998, Istituto Mobiliare Italiano S.p.A. merged into Istituto Bancario San Paolo di Torino S.p.A. The merger was effective from a legal point of view from November 1, 1998, whereas from an accounting and tax standpoint it was effective retroactively from January 1, 1998. Consequently, the consolidated financial statements include the assets and liabilities, costs and revenues of the merged company and its subsidiaries for the whole year.

In the course of the 1999, Sanpaolo IMI S.p.A. spun off a portion of property assets to Beni Stabili S.p.A. and conferred its merchant banking activity to NHS - Nuova Holding Subalpina S.p.A.

(d) In determining the reserve for taxes as of December 31, 1999, Sanpaolo IMI S.p.A. has taken account of the incentives envisaged by Law 461/1998 and Legislative Decree 153/1999. The application of the incentives has, however, been effected using prudent criteria to assess the amount of the benefit. Furthermore, as a result of the incentives, an average rate, lower than that theoretically available, has been used to calculate prepaid taxes relating to future years; therefore lower prepaid taxes have been determined.

As required by CONSOB (Document No. 27052 of April 7, 2000), Sanpaolo IMI S.p.A. has disclosed the fact that the incentives provided by Law 461/1998 have been suspended and has indicated that any net benefit not realized (approximately Euro 13 million) is covered by the reserve for taxes for current and potential tax disputes.

Turin, Italy
April 10, 2000

Arthur Andersen SpA

CONSOLIDATED BALANCE SHEET

(in millions of Euro)

ASSETS		12/31/99		12/31/98	
10	Cash and deposits with central banks and post offices		528		421
20	Treasury bills and similar bills eligible for refinancing with central banks		3,332		5,949
30	Due from banks:		22,144		23,093
	a) repayable on demand	3,115		3,458	
	b) other deposits	19,029		19,635	
40	Loans to customers		73,174		86,889
	including:				
	- *loans using public funds*	*47*		*67*	
50	Bonds and other debt securities		13,605		18,573
	a) public entities	7,369		12,791	
	b) banks	3,959		4,007	
	including:				
	own bonds	*1,392*		*1,449*	
	c) financial institutions	632		388	
	including:				
	- *own bonds*	*10*			
	d) other issuers	1,645		1,387	
60	Shares, quotas and other equities		1,443		1,200
70	Equity investments		2,899		941
	a) carried at equity	395		191	
	b) other	2,504		750	
80	Equity Investments in Group companies		448		380
	a) carried at equity	448		380	
	b) other	-		-	
90	Goodwill arising on consolidation		7		11
100	Goodwill arising on application of the equity method		51		48
110	Intangible fixed assets		267		302
	including:				
	- *start-up costs*	*2*		*3*	
	- *goodwill*	*17*		*35*	
120	Tangible fixed assets		1,120		1,669
140	Own shares		357		5
	(par value Euro 81 million)				
150	Other assets		16,199		13,439
160	Accrued income and prepaid expenses		4,649		5,369
	a) accrued income	4,435		4,503	
	b) prepaid expenses	214		866	
	including:				
	- *discounts on bond issues*	*8*		*60*	
Total assets			**140,223**		**158,289**

(in millions of Euro)

LIABILITIES AND SHAREHOLDERS' EQUITY		12/31/99		12/31/98	
10	Due to banks		28,012		27,763
	a) repayable on demand	3,151		3,899	
	b) time deposits or with notice period	24,861		23,864	
20	Due to customers		43,189		45,117
	a) repayable on demand	31,818		27,361	
	b) time deposits or with notice period	11,371		17,756	
30	Securities issued		35,718		52,211
	a) bonds	23,643		38,437	
	b) certificates of deposit	9,090		12,059	
	c) other	2,985		1,715	
40	Public funds administered		50		69
50	Other liabilities		15,715		14,710
60	Accrued expense and deferred income		5,154		5,605
	a) accrued expense	4,827		5,234	
	b) deferred income	327		371	
70	Provision for termination indemnities		438		436
80	Provisions for risks and charges		1,483		1,786
	a) pensions and similar commitments	62		66	
	b) taxation	1,029		1,320	
	c) other	392		400	
90	Reserve for possible loan losses		29		19
100	Reserve for general banking risks		361		359
110	Subordinated liabilities		1,524		1,511
120	Negative goodwill arising on consolidation		15		20
130	Negative goodwill arising on application of the equity method		199		40
140	Minority interest		539		394
150	Capital		3,926		4,345
170	Reserves		2,821		2,995
	a) legal reserve	792		869	
	b) reserve for own shares	357		5	
	c) statutory reserves	-		-	
	d) other reserves	1,672		2,121	
200	Net income for the year		1,050		909
Total liabilities and shareholders' equity			**140,223**		**158,289**

(in millions of Euro)

GUARANTEES AND COMMITMENTS		12/31/99		12/31/98	
10	Guarantees given:		11,045		11,024
	Including:				
	- *acceptances*	*132*		*154*	
	- *other guarantees*	*10,913*		*10,870*	
20	Commitments		18,028		19,984

CONSOLIDATED STATEMENT OF INCOME

(in millions of Euro)

		12/31/99		12/31/98		12/31/97	
10	Interest income and similar revenues		5,966		9,981		8,886
	including from:						
	-loans to customers	*4,324*		*6,810*		*5,767*	
	-debt securities	*915*		*1,661*		*1,553*	
20	Interest expense and similar charges		(3,934)		(7,330)		(6,753)
	including on:						
	-deposits from customers	*(909)*		*(1,598)*		*(1,781)*	
	-securities issued	*(1,847)*		*(3,594)*		*(3,276)*	
30	Dividends and other revenues		250		144		55
	a) from shares, quotas and other	*148*					
	equities			*118*		49	
	b) from equity investments	*102*		*26*		7	
40	Commission income		2,587		2,230		1,114
50	Commission expense		(530)		(479)		(181)
60	Profits (losses) on financial transactions		103		206		177
70	Other operating income		224		224		213
80	Administrative costs		(2,466)		(2,495)		(2,228)
	a) personnel	(1,534)		(1,543)		(1,477)	
	including:						
	- wages and salaries	*(1,097)*		*(1,103)*		*(1,007)*	
	- social security charges	*(365)*		*(368)*		*(406)*	
	- termination indemnities	*(69)*		*(70)*		*(63)*	
	- pensions and similar commitments	*(3)*		*(3)*		*(1)*	
	b) other	*(932)*		*(952)*		(751)	
90	Adjustments to intangible and tangible fixed assets		(293)		(307)		(281)
100	Provisions for risks and charges		(81)		(125)		(52)
110	Other operating expenses		(40)		(51)		(37)
120	Adjustments to loans and provisions for guarantees and commitments		(664)		(780)		(1,037)
130	Writebacks of adjustments to loans and provisions for guarantees and commitments		361		254		340
140	Provisions to the reserve for possible loan losses		(10)		(6)		-
150	Adjustments to financial fixed assets		(89)		(67)		(10)
160	Writebacks of adjustments to financial fixed assets		2		-		1
170	Income (losses) from investments carried at equity		118		82		(106)
180	**Income from operating activities**		**1,504**		**1,481**		**101**
190	Extraordinary income		367		223		238
200	Extraordinary expenses		(73)		(64)		(98)
210	**Extraordinary items, net**		**294**		**159**		**140**
230	Change in reserve for general banking risks		(1)		(8)		(5)
240	Income taxes		(685)		(630)		(114)
250	Minority interests		(62)		(93)		(35)
260	**Net income for the year**		**1,050**		**909**		**87**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions of Euro)

	Capital Stock	Reserves	Retained Earnings	Total
Balance at December 31, 1996	**4,214**	**576**	**312**	**5,102**
Appropriation of net income after minority interest for 1996:				
to reserves	-	193	(193)	-
dividends	-		(118)	(118)
Substitute tax charged to reserves	-	(7)	-	(7)
Withdrawal from reserves to pay the tax on equity	-	(44)	-	(44)
Net effect of currency traslation of some affiliates' account				
and other adjustments	-	23	-	23
Net income after Minority Interest	-	-	87	87
Balance at December 31, 1997	**4,214**	**741**	**88**	**5,043**
Effects of the merger with IMI	131	2,649	-	2,780
Appropriation of net income after minority interest for 1997:				-
to reserves	-	88	(88)	-
dividends	-		-	-
Withdrawal from San Paolo's reserves to pay dividends	-	(46)	-	(46)
Withdrawal from reserves to pay the tax on equity	-	(45)	-	(45)
Adjustments due to the consolidation of equity investments				-
in subsidiaries of ex IMI	-	40	-	40
Increase of the reserve general banking risks	-	8	-	8
Net effect of currency traslation of some affiliates' account				-
and other adjustments	-	(20)	-	(20)
Net income after minority interest	-	-	909	909
Balance at December 31, 1998	**4,345**	**3,415**	**909**	**8,669**
Appropriation of net income after minority interest for 1998:				
to reserves	-	257	(257)	-
dividends	-	-	(652)	(652)
Real estate spin-off	(413)	(288)	-	(701)
Conversion of share capital into Euro	(6)	-	-	(6)
Increase of the reserve general banking risks	-	1	-	1
Net effect of currency traslation of some affiliates' account				
and other adjustments	-	6	-	6
Net income after minority interest	-	-	1,050	1,050
Balance at December 31, 1999	**3,926**	**3,391**	**1,050**	**8,367**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Form and content of Consolidated Financial Statements for the years ended December 31, 1999, 1998 and 1997

The Bank's consolidated financial statements for 1999 have been prepared pursuant to Decree 87 of January 27, 1992, which implemented EEC Directive 86/635. They also take account of the requirements contained in the Bank of Italy instructions dated July 30, 1992 and subsequent amendments. All matters not covered by specific legislation are regulated by the provisions of the Italian Civil Code and making reference to the accounting principles issued by the Italian Accounting Profession.

The consolidated financial statements comprise the consolidated balance sheets, the consolidated statements of income and these explanatory notes, together with the report of the Board of Directors on the results of operations for the years indicated above.

Pursuant to art. 16, par. 3 of Legislative Decree 213/98, effective from December 31, 1999 the Bank has opted for the Euro as its reporting currency, for the preparation of all compulsory accounting documents for publication. The financial statements for 1999 have therefore been prepared in Euro. More specifically, in line with the regulations issued by the Bank of Italy and by Consob, the accounting tables and the explanatory notes are expressed in millions of Euro (1 Euro = 1,936.27 Lire).

The explanatory notes are presented with comparative figures taken from the consolidated balance sheet and the consolidated statement of income, for the SANPAOLO IMI Group as of December 31, 1998, and consolidated statement of income for SANPAOLO Group as of December 31, 1997.

The comparative figures of the previous years have been converted in Euro at the exchange rate of 1 Euro = 1,936.27 Lire.

These notes provide all the information required by law, including any additional data necessary to give a true and fair view of the financial and operating situation of the Group. The tables required by the Bank of Italy are numbered in accordance with Bank of Italy instructions or based on the date of the Instructions.

The following schedules are attached to the consolidated financial statements:

- Statements of changes in consolidated shareholders' equity;
- Statements reconciling the Bank's financial statements with the consolidated financial statements.

(2) Conversion of the share capital into Euro

In line with the decision to adopt the Euro as its reporting currency, the Bank also converted its share capital into Euro. The Bank adopted the "simplified" procedure (i.e. by means of a board resolution rather than the Shareholders' Meeting). The "simplified" procedure can be used in those cases when the par value of the shares is rounded to the nearest cent of Euro. The conversion resulted in:

- a par value of Euro 2.8;
- reduction of the share capital by approximately Euro 6 million (Lire 11.8 billion), increasing the legal reserve by the same amount.

Following the conversion, the Bank's share capital amounts to Euro 3,926,117,854.4, made up of 1,402,184,948 ordinary shares of par value Euro 2.8 each; the legal reserve amounts to Euro 792,561,421.3.

(3) Scope of Consolidation

The scope of line-by-line consolidation reflects the Sanpaolo IMI Group as recorded in the appropriate register in compliance with art. 64 of Decree 385 dated September 1, 1993, with the exception of certain minor investments whose balance sheet and statement of income results have little or no effect on the consolidated financial statements, or which have been put into liquidation or disposed of. In addition to Sanpaolo IMI S.p.A., the Group comprises the directly and indirectly controlled subsidiaries of the former which carry out banking, finance or other activities which complement those of the Bank.

The following changes affected the scope of line-by-line consolidation as of December 31, 1999 as compared to December 31, 1998:

- exclusion of Crediop S.p.A. (and its subsidiaries, Crediop BV, Crediop Overseas Bank and C.Fin) as the Group no longer holds a controlling interest, following the disposal of a 20% interest;
- exclusion of Imigest Immobiliare (and its subsidiaries Tradital and Immobiliare Italia Gestioni) as this company forms part of the real estate sector which SANPAOLO IMI S.p.A. has spun off;

and the inclusion of:

- Nuova Holding Subalpina, a merchant bank, which is now 51% controlled following conferral of the Bank's merchant banking business;
- Fideuram Gestions S.A. set up in October 1999 by the subsidiary Banca Fideuram S.p.A..

The subsidiary Finconsumo S.p.A. was consolidated on a proportional basis, given a situation of joint control.

Investments in subsidiaries whose activities differ from those of the rest of the Group or those that are excluded from the scope of consolidation for the above-mentioned reasons, are valued using the equity method, together with holdings in companies subject to significant influence where the Group controls at least 20% of the voting rights in ordinary meeting (i.e. associated companies).

Companies consolidated on a line-by-line basis and investments carried at equity are listed in Note (13).

(4) Financial statements used for consolidation

The financial statements used for the consolidation are those prepared as of December 31, 1999, and approved by the competent bodies. They have been adjusted, where necessary, for consistency with Group accounting policies. The financial statements used for consolidation purposes of companies operating in the financial leasing sector were prepared using the principles consistent with Group accounting policies.

For the years ended on 1997 and 1998 Banque Sanpaolo line by line consolidation was based on its consolidated financial statements including its subsidiaries which were included within the Group.

In the case of investments carried at equity, the financial statements used for valuation were the latest set of financial statements or draft accounts available for each company.

(5) Consolidation principles

The main consolidation principles adopted are as follows:

The book value of investments in consolidated companies, held by the Bank or other Group companies, is eliminated against the corresponding portion of the Group's share of shareholders' equity, on a line-by-line basis. The assets and liabilities of these investments are consolidated. Elimination of the book value and shareholders' equity is carried out on the basis of the values current at the time the investment was consolidated for the first time or at the time the controlling interest was acquired. Where possible, any differences arising are allocated to the assets and liabilities of the related consolidated companies, or, for the quota attributable to the Group on the basis of the application of equity ratios, to "negative or positive goodwill" arising on consolidation, depending on whether the value of the investment is lower or higher than the shareholders' equity.

In detail, the elimination of the book value of the investments against the corresponding portion of the shareholders' equity is carried out:

- with reference to the balance sheets as of December 31, 1993 for investments held in portfolio as of December 31, 1994, being the date the Bank first prepared consolidated financial statements;

- for investments purchased subsequently, with reference to their balance sheets at the date of acquisition or, as customary where these are not available, with reference to the balance sheets prepared closest to that date;

- for investments formerly belonging to the IMI Group, with reference to their shareholders' equity as of December 31, 1998 (accounting date for the merger of Sanpaolo and IMI). However, in the interests of better disclosure, the "negative goodwill arising on consolidation" has been booked to the various shareholders' equity captions, in line with what had been done in the financial statements of the former IMI Group, instead of being booked to the caption "negative goodwill arising on consolidation" (see Part Note 18 of these explanatory notes).

Investments in companies carried at equity are recorded in the financial statements at the amount equal to the corresponding portion of their shareholders' equity. Any balance not assignable to the assets or liabilities of the companies' concerned at the time this method is first implemented, is booked to "positive/negative goodwill arising on application of the equity method". In the years after the first year of consolidation the adjustment of the value of these investments is booked to "negative goodwill arising on application of the equity method" and to "Income (losses) from investments carried at equity" respectively for the changes referring to reserves and those referring to the net income of the company in which the investment is held.

"Positive goodwill" arising on the application of line-by-line consolidation, proportional consolidation or the equity method is deducted from the total "negative goodwill" that existed already or which arose during the same year and up to their total amount. Investments acquired to be re-sold as part of the merchant banking activity are not taken into account for this offsetting. Positive goodwill not offset against negative goodwill is amortized over a period of five years or over different periods depending on how the investment is used. This approach has been applied beginning from the financial statements as of December 31, 1998; positive goodwill arising on consolidation of certain equity investments of the IMI Group has been offset against the negative goodwill arising on consolidation of other equity investments of the IMI Group. On that occasion the amortization schedule of existing positive goodwill has been confirmed.

Receivables, payables, off-balance sheet transactions, and costs and revenues as well as any gains and losses relating to significant transactions between Group companies are eliminated. By way of exception, also on account of the provisions of art. 34, Decree 87/92, costs and revenues arising on transactions involving stocks and shares and currency traded between Group companies at normal market conditions, are not eliminated.

The financial statements of consolidated companies denominated in currencies not included in the Euro-zone are translated into Euro at year-end rates of exchange. Differences arising on translation of the equity items of consolidated companies at year-end rates of exchange are included in consolidated reserves, unless they are offset by specific hedging transactions.

Adjustments and provisions made solely for fiscal purposes in the financial statements of consolidated companies are eliminated.

(6) Changes to the accounting policies

The accounting policies used in the preparation of the 1999 balance sheet and statement of income are consistent with those used for the Group’s 1998 and 1997 consolidated financial statements, with the following exceptions:

Changes adopted in the 1999

In compliance with the Bank of Italy’s instructions on deferred taxation, which were issued on August 3, 1999, the treatment of deferred tax assets has been changed. In particular, where deductible timing differences exceed taxable timing differences, the net tax effect is now classified under caption 150 “other assets” (with a credit to income taxes), rather than under caption 160.b) “prepaid expenses”.

Changes already adopted in the 1998

Quoted dealing securities

Portfolio dealing securities quoted on organized markets are stated at market value rather than at the lower of cost and market. This change in accounting policy has affected only a limited part of the securities portfolio, as securities held as part of complex financial portfolios were already shown at market value.

The change in accounting treatment means that the operating results are now perfectly aligned with the accounting results, as securities are marked to market on a daily basis. It also means applying one accounting policy to the Bank's entire dealing portfolio, eliminating the distinction between securities held or not held as part of complex financial portfolios.

Adopting a mark-to-market approach has also ensured consistency in the accounting policy applied to the securities portfolios with international accounting standards and in particular with US GAAP.

This change had a positive impact on the consolidated statement of income at December 31, 1998 of around Euro 18 million, net of the tax effect.

Following the merger between San Paolo and IMI which, as noted, has resulted in the quotation of the new banking group on the New York Stock Exchange, it became apparent that a review of the Group's entire framework of accounting principles would be appropriate, starting as far as possible from the financial statements for the year ended December 31, 1998.

This process of revision aims to reduce, within the time limits and using the methods permissible, the disparity that currently exists between Italian and international accounting standards (identifiable in the provisions established by the IASC - International Accounting Standards Committee) and more specifically, those adopted in the United States (chiefly issued by the FASB - Financial Accounting Standards Board and by the APB - Accounting Principles Board).

This process of alignment reflects a requirement strongly voiced by markets and international financial authorities. This is because information mismatches, determined by the lack of consistency between accounting standards used to prepare financial statements in certain countries, both emerging and western, are the cause of considerable misalignment in the international allocation of public and private funds.

The main areas where measures were taken concern loans and deferred taxation.

Valuation of loans

In 1998, Sanpaolo presented the Securities and Exchange Commission (SEC) with the report (Form F-4) requested by US regulations in relation to the quotation of Sanpaolo IMI securities on the New York Stock Exchange (NYSE). As part of this document, San Paolo presented a pro-forma schedule of aggregate San Paolo - IMI data prepared using American accounting standards (US GAAP).

On the subject of the valuation of problem loans, the guidelines issued by the American Financial Accounting Standards Board (FASB) foresee the calculation of estimated realizable value on the basis of the current value of future cash flows. For the purposes of drawing up Form F-4 and in compliance with US

GAAP, San Paolo has therefore proceeded, on the basis of certain detailed assumptions, to calculate additional writedowns on the loan portfolio in order to reflect the financial charges inherent to recovery times. The contents of Statement of Financial Accounting Standards (SFAS) No. 114 have on the whole been built into the recent document issued for consultation by the Basle Committee ("Sound Practices for Loan Accounting").

As part of this process of convergence towards international accounting standards, the accounting treatment of problem loans has been supplemented by introducing the concept of discounting receivables to their net present value. Under this new principle, the estimated realizable value of each loan for inclusion in the financial statements takes into account (as of December 31, 1998) not only the estimated recovery of the loan, but also the financial charges involved in the total or partial idleness of the loan and the delayed repayment of loans at risk.

Application of discounting expected future cash lows related to loans has resulted in a reduction of Euro 463 million in the Group's problem loans; Euro 414 million, pertaining to the Bank, have not had any effect on the 1998 consolidated statement of income since the Bank has, for this purpose, deducted from the book value of loans part of the Reserve for possible loan losses (balance sheet liability caption 90) shown in the Bank's accounts as result of the merger with IMI S.p.a. The residual portion of the reserve has been recorded against the general risk inherent in the loan portfolio of the Bank and charged in the accounts against performing loans.

Loans which have been discounted are as follows:

- non-performing loans;
- problem loans;
- restructured loans;
- loans being restructured;
- performing loans valued on a case-by-case basis (groups under observation).

Discount adjustments are calculated as the difference between:

- estimated realizable value;
- the net present value of expected financial flows (principal and interest).

In determining the current value of financial flows, the essential elements are identification of estimated recoveries, their maturities and the discount rate.

As far as the identification of estimated recoveries and related maturities are concerned, the Bank and Group companies have made reference to the specific indications provided by those corporate departments whose function is to evaluate loans. In certain cases, estimates and forfait values based on statistics and sector analyses have been used.

As far as the discount rate is concerned, American Accounting Standard SFAS No. 114 indicates that the appropriate discount rate is the loan's effective interest rate. This should be the original contractual rate or the implicit rate which renders the current value of financial flows equal to the face value or purchase value of the loan.

Unfortunately, the use of individual contractual lending rates is unfeasible, due to the complexity of the problem loan portfolio and the fact that over 85% of such loans are represented by positions regulated at floating rates of interest. The Bank has therefore used the six-month average RIBOR rate (for the last six months of the year) plus a spread of 1.75% as a reference parameter. The resulting interest rate, 5.96%, is deemed to be a best approximation, bearing in mind that six-month RIBOR is the principal indicator used for the repricing of long-term loans at floating rates of interest and the spread used is the average figure which permits a return on risk in line with the medium-term yield expected by the Bank.

Deferred taxation

With a view to achieving the stated aim of maximum transparency in the financial statements, and as part of the process of convergence towards international accounting standards, the Bank has considered it advisable to record the deferred taxation relating to certain equity items in the financial statements.

These items have been identified in the equity reserves of the former IMI S.p.A. re-constituted in the post-merger financial statements in compliance with current fiscal legislation: the Reserve for general banking risks (Euro 336 million) and the Reserve under Law 169/83 (Euro 72 million).

With regards to the Reserve for general banking risks, the expediency of charging deferred taxation is attributable to the probability that any eventual loan losses may in the future become non-deductible due to the fiscal nature of the reserve. This reserve is also an equity item that would be subject to taxation in the event of use.

On the other hand, the expediency of charging deferred taxation to the Reserve under Law 169/83 is linked to the likelihood that it may be taxed; this reserve, which is unrestricted for statutory purposes, is in fact subject to taxation on use and not merely on distribution.

Deferred taxation, Euro 151 million, on these equity items under similar fiscal regimes has been debited by the Bank against the merger surplus deriving from the San Paolo/IMI merger, at the same time setting up specific Reserves for deferred taxation. Of course, these accounting entries, which are also reflected in the consolidated financial statements, do not involve any effective outlay of taxes.

For the sake of completeness, we would also like to point out with regard to the shareholder’s equity of the Bank that the other balances that are in suspense for tax purposes - namely Capital (Euro 610 million), the Legal reserve (Euro 336 million, after transfer of the Amato reserve) and the Amato Reserve itself (Euro 89 million) are only subject to taxation in the event of distribution. Considering their restricted nature, the Bank has confirmed the previous accounting policy. No deferred tax has been charged against them, as the events that could give rise to their taxation are not expected to occur in the foreseeable future.

Deferred taxation has also been recorded by the Bank in relation to the Reserve pursuant to art. 21 of Decree Law 213/98.

Deferred tax potentially due by the Bank on distribution of the reserves of a subsidiary, IMI International, has also been recorded in the consolidated financial statements. The amount of this deferred tax (Euro 50 million) has been booked directly to “other reserves” which includes the equity reserves of the subsidiary in question.

In conclusion, we would like to point out that, beginning with the consolidated financial statements as of December 31, 1998, the recording of deferred taxation on timing differences between the book value and fiscal value of assets and liabilities has been made without applying the limited time span of the next four years, as in 1998; provided that, based on elements, such as the company’s budgeted income and its historical trend in taxable income, the requirement of *reasonable certainty* that sufficient taxable income will be generated in the future to permit full absorption of the deferred tax assets is satisfied.

This extension of the time span has led to a gain in the 1998 consolidated statement of income of around Euro 165 million, essentially attributable to full recovery by the Bank of taxes paid on loan writedowns deductible from the year 2003 onwards.

The new accounting treatment is consistent with the contents of IAS No. 12 and with the provisions contained in the document drawn up recently by the Italian Accounting Principles Commission on the accounting treatment of income taxes.

(7) Audit of the consolidated financial statements

The Bank’s consolidated financial statements, as well as the Bank’s financial statements, are audited by Arthur Andersen S.p.A., in accordance with the shareholders’ resolution dated April 30, 1998, which appointed them as auditors for the three-year period 1998-2000.

(8) Basis for the pro-forma financial statements of the SANPAOLO IMI Group for 1998

For the sake of comparability, the financial statements as of December 31, 1998 are presented in a pro-forma version that excludes Crediop from the scope of consolidation. The pro-forma statements have not been audited by an external auditing firm. The pro-forma statements have been prepared eliminating from every caption of the 1998 consolidated financial statements the contribution made by Crediop and its subsidiaries, consolidated on a line-by-line basis; the investment in Crediop was then valued under the equity method and included in the asset caption 80 "Investments in Group companies – carried at equity". After application of this method the pro-forma consolidated net income and shareholders' equity remain the same as the official ones, as published.

In line with what has been implemented in the 1999 half-year report, the pro-forma financial statements report deferred tax assets under the caption "other assets" and not under "prepaid expenses", in compliance with the Bank of Italy's instructions of August 3, 1999.

The consolidated pro-forma financial statements are as follows:

(in millions of Euro)

ASSETS		12/31/99		12/31/98		12/31/1998 (pro-forma)	
10	Cash and deposits with central banks and post offices		528		421		421
20	Treasury bills and similar bills eligible for refinancing with central banks		3,332		5,949		5,931
30	Due from banks:		22,144		23,092		22,458
	a) repayable on demand	3,115		3,458		3,622	
	b) other deposits	19,029		19,635		18,836	
40	Loans to customers		73,174		86,889		72,968
	including:						
	- *loans using public funds*	*47*		*67*		*67*	
50	Bonds and other debt securities		13,605		18,573		16,774
	a) public entities	7,369		12,791		11,396	
	b) banks	3,959		4,007		3,713	
	including:						
	- *own bonds*	*1,392*		*1,449*		*1,182*	
	c) financial institutions	632		388		278	
	including:						
	- *own bonds*	*10*		-		-	
	d) other issuers	1,645		1,387		1,387	
60	Shares, quotas and other equities		1,443		1,200		1,196
70	Equity investments		2,899		942		901
	a) carried at equity	395		191		188	
	b) other	2,504		750		713	
80	Equity Investments in Group companies		448		380		771
	a) carried at equity	448		380		771	
	b) other	-		-			
90	Goodwill arising on consolidation		7		11		11
100	Goodwill arising on application of the equity method		51		48		48
110	Intangible fixed assets		267		302		296
	including:						
	- *start-up costs*	*2*		*3*		*2*	
	- *goodwill*	*17*		*35*		*35*	
120	Tangible fixed assets		1,120		1,669		1,606
140	Own shares (par value Euro 81 million)		357		5		5
150	Other assets		16,199		13,439		13,707
160	Accrued income and prepaid expenses		4,649		5,369		4,431
	a) accrued income	4,435		4,503		4,217	
	b) prepaid expenses	214		866		214	
	including:						
	- *discounts on bond issues*	*8*		*60*		*13*	
Total assets			**140,223**		**158,289**		**141,524**

(in millions of Euro)

	LIABILITIES AND SHAREHOLDERS' EQUIT	12/31/99		12/31/98		12/31/1998 (pro-forma)	
10	Due to banks		28,012		27,763		25,141
	a) repayable on demand	3,151		3,899		3,501	
	b) time deposits or with notice period	24,861		23,864		21,640	
20	Due to customers		43,189		45,117		45,057
	a) repayable on demand	31,818		27,361		27,301	
	b) time deposits or with notice period	11,371		17,756		17,756	
30	Securities issued		35,718		52,212		39,373
	a) bonds	23,643		38,437		25,897	
	b) certificates of deposit	9,090		12,059		11,761	
	c) other	2,985		1,715		1,715	
40	Public funds administered		50		69		69
50	Other liabilities		15,715		14,709		14,543
60	Accrued expense and deferred income		5,154		5,605		5,077
	a) accrued expense	4,827		5,234		4,754	
	b) deferred income	327		371		323	
70	Provision for termination indemnities		438		436		431
80	Provisions for risks and charges		1,483		1,786		1,619
	a) pensions and similar commitments	62		66		66	
	b) taxation	1,029		1,320		1,178	
	c) other	392		400		375	
90	Reserve for possible loan losses		29		19		19
100	Reserve for general banking risks		361		359		359
110	Subordinated liabilities		1,524		1,511		1,382
120	Negative goodwill arising on		15		20		15
130	Negative goodwill arising on application of the equity method		199		40		166
140	Minority interest		539		394		145
150	Capital		3,926		4,345		4,345
170	Reserves		2,821		2,995		2,874
	a) legal reserve	792		869		869	
	b) reserve for own shares	357		5		5	
	d) other reserves	1,672		2,121		2,000	
200	Net income for the year		1,050		909		909
Total liabilities and shareholders' equity			**140,223**		**158,289**		**141,524**

(millions of Euro)

	GUARANTEES AND COMMITMENTS	12/31/99		12/31/98		12/31/1998 (pro-forma)	
10	Guarantees given:		11,045		11,024		11,465
	Including:						
	-acceptances	*132*		*154*		*154*	
	-other guarantees	*10,913*		*10,870*		*11,311*	
20	Commitments		18,028		19,984		18,355

CONSOLIDATED STATEMENT OF INCOME

(in millions of Euro)

		12/31/99		12/31/98		12/31/1998 (pro-forma)	
10	Interest income and similar revenues		5,966		9,981		8,642
	including from:						
	- loans to customers	*4,324*		*6,810*		5,672	
	- debt securities	*915*		*1,661*		1,610	
20	Interest expense and similar charges		(3,934)		(7,330)		(6,219)
	including on:						
	-deposits from customers	*(909)*		*(1,598)*		(1,593)	
	-securities issued	*(1,847)*		*(3,594)*		(2,636)	
30	Dividends and other revenues		250		144		143
	a) from shares, quotas and other	*148*				118	
	equities			*118*		25	
	b) from equity investments	*102*		*26*			
	c) from investments in Group companies	-		-			
40	Commission income		2,587		2,230		2,227
50	Commission expense		(530)		(479)		(473)
60	Profits (losses) on financial transactions		103		206		198
70	Other operating income		224		224		225
80	Administrative costs		(2,466)		(2,495)		(2,466)
	a) personnel	(1,534)		(1,543)		(1,526)	
	including:						
	- wages and salaries	*(1,097)*		*(1,103)*		(1,091)	
	- social security charges	*(365)*		*(368)*		(364)	
	- termination indemnities	*(69)*		*(70)*		(69)	
	- pensions and similar commitments	*(3)*		*(3)*		(2)	
	b) other	*(932)*		*(952)*		(940)	
90	Adjustments to intangible and tangible fixed assets		(293)		(307)		(302)
100	Provisions for risks and charges		(81)		(125)		(100)
110	Other operating expenses		(40)		(51)		(51)
120	Adjustments to loans and provisions for guarantees and commitments		(664)		(780)		(779)
130	Writebacks of adjustments to loans and provisions for guarantees and commitments		361		254		254
140	Provisions to the reserve for possible loan losses		(10)		(6)		(6)
150	Adjustments to financial fixed assets		(89)		(67)		(67)
160	Writebacks of adjustments to financial fixed assets		2		-		-
170	Income (losses) from investments carried at equity		118		82		148
180	**Income from operating activities**		**1,504**		**1,481**		**1,374**
190	Extraordinary income		367		223		176
200	Extraordinary expenses		(73)		(64)		(56)
210	**Extraordinary items, net**		**294**		**159**		**120**
230	Change in reserve for general banking risks		(1)		(8)		(8)
240	Income taxes		(685)		(630)		(534)
250	Minority interests		(62)		(93)		(43)
260	**Net income for the year**		**1,050**		**909**		**909**

(9) Description of Accounting Policies

The accounting policies adopted are communicated to and, where required by law, approved by the Board of Statutory Auditors. These policies are consistent with those applied as of December 31, 1998 and 1997 except for the changes discussed in the introduction to these explanatory notes.

Loans, guarantees and commitments

Loans

Loans, including principal not yet due and principal and interest due but not yet collected, are stated at their estimated realizable value, taking account of the solvency of borrowers in difficulty and any debt-servicing problems faced by individual industrial sectors or the countries in which borrowers are resident. The assessment performed also takes into consideration any guarantees received, market prices (where applicable) and general difficulties experienced by the different categories of borrower. Estimated realizable value is determined following a detailed review of loans outstanding at period-end, considering the degree of risk associated with the various forms of lending and the risk of default inherent in loans that are currently performing normally. The estimated realizable value of doubtful loans (non-performing, problem and restructured loans, loans being restructured and loans to companies under observation, assessed on a case-by-case basis) takes into consideration not only the likelihood of eventual recovery, but also any total or partial failure to generate income and delayed repayments of doubtful loans.

In particular:

- non-performing loans, being loans to borrowers in a state of insolvency or similar, are valued on a case-by-case basis;

- problem loans, being loans to borrowers in temporary difficulties, are valued on a case-by-case basis;

- restructured loans, being loans for which a syndicate of banks (or a single bank) reschedules the repayment of principal or re-negotiates the applicable terms at lower-than-market rates, are valued on a case-by-case basis;

- loans being restructured, being loans for which the borrower has applied for consolidation to a variety of banks within the past 12 months, are valued on a case-by-case basis;

- loans exposed to "country risk", being loans to borrowers resident in countries with debt-servicing difficulties, are normally adjusted on a general basis by applying writedown percentages not lower than those specified by the banking association. In addition, specific positions are assessed on a case-by-case basis, using objective criteria, with reference to the category of risk concerned;

- performing loans, being loans to borrowers who, at this time, do not present specific insolvency risks, are valued on a general basis, except for the positions of certain companies under observation, which are assessed on a case-by-case basis. General adjustments to performing loans are calculated on a historical-statistical basis, taking into consideration the average percentage of previously performing loans which became problem loans during the last four years. This percentage was then applied to the total of performing loans at the end of the year to determine the percentage of performing loans which, based on historic experience, could be transferred in the future to other categories of loans with a higher degree of risk. The average percentage writedown for each risk category was then applied to this total.

The present value adjustments reflect the difference between book value and:

- estimated realizable value; or
- the discounted net present value of future financial flows (principal and interest).

The discounted present value of financial flows is determined by reference to expected cash receipts, the timing of such receipts and the applicable discounting rate.

The timing and extent of expected cash receipts are determined by input from the department responsible for loan evaluation, using estimates and general statistics deriving from historical data and studies of the business sectors concerned.

With regard to the discounting rate at December 31, 1999, the Bank has used a reference rate of 5.96%, as applied at the end of 1998. This rate is deemed to reflect the best approximation of the original average yield on the problem loan portfolio – considering the contractual rates currently applied by the Bank on medium-long term loans (fixed and floating rate) and on short term ones (floating rate). A similar approach has been adopted by subsidiary companies; foreign companies have applied reference rates appropriate to the markets concerned.

For the purpose of classifying loans as non-performing, problem, restructured or exposed to country-risk, the Bank has made reference to current Bank of Italy regulations on the subject. These have been supplemented by specific and detailed internal instructions regarding, in particular, aspects of implementation and the introduction of rules for the automatic transfer of loans between the various risk categories.

The Bank's doubtful loans are classified to the various risk categories (non-performing, problem, restructured and being restructured) by the Branches and Area Management, working together with the central functions responsible for the supervision of lending.

Following a review by the central functions responsible for the control and recovery of loans, the resulting estimated realizable values are formally approved by the committees and other levels within the organization empowered to take such decisions.

Default interest accrued during the period is eliminated from the statement of income since, for the sake of prudence, collection is considered unlikely.

Writedowns, both specific and general, are made by an adjustment to reduce the value of the asset recorded in the balance sheet on the basis discussed above. The original values may be reinstated by means of writebacks, should the reasons for any writedowns cease to apply.

The discounting process automatically means that there will be writebacks to discounted loans: in fact, the mere passage of time, with the consequent approach of the expected collection deadlines, implies an automatic reduction in the implicit financial charges previously deducted from the value of the loans.

Loans deriving from financing and deposit contracts

These are recorded at the amount disbursed. The difference between the amount of the loan granted to a customer and the amount actually disbursed is credited to the statement of income in accordance with the loan repayment plan. Loans backed by discounted notes, acquired within the scope of lending activities, are recorded in the financial statements at their nominal value, while the portion pertaining to future years is recorded among deferred income.

Reverse repurchase agreements on securities

Reverse repurchase agreements that require the holder to resell securities when the agreement matures are treated as lending transactions. The amounts disbursed in this way are therefore recorded as loans. Income from lending, comprising interest coupons on securities and the differential between the spot and forward prices for such securities, are recorded on an accruals basis as interest in the statement of income.

Loan of securities

Transactions involving the loan of securities guaranteed by funds freely available to the lender are treated in the same way as repurchase agreements on securities. Securities loaned, not guaranteed by sums of money, are reported in the financial statements as a combination of two functionally-linked transactions: a loan to and a deposit from a third party (or vice versa). These transactions are essentially the same as repurchase agreements, which means that the securities loaned remain in the portfolio of the lender.

Finance leases

Lease transactions are recorded using lease accounting methodology, which states lease contracts and transactions in such a way as to disclose their economic substance. This approach, which recognizes the financial nature of leasing transactions, treats the excess of total lease payments over the cost of the related asset as interest income. Such income is credited to the statement of income with reference to the residual principal and the pre-determined rate of return, taking into consideration the end-of-lease purchase value of the asset. Accordingly, the balance of loans under finance leases reported in the consolidated financial statements essentially represents the outstanding principal on loans to customers and installments due but not yet collected.

Guarantees and commitments

Guarantees and commitments giving rise to lending risk are recorded at the total value of the exposure, while the related risk is assessed on the basis described in relation to loans. Expected losses in relation to guarantees and commitments are covered by the related provision. Guarantees given also include the nominal values of the credit derivative swaps, for which the Group has taken on the credit risk.

Securities and off-balance sheet transactions (other than foreign currency transactions)

Investment securities

Investment securities, due to be held long term by the Bank as stable investments, are valued at cost, as adjusted by accrued issue discounts and accrued dealing discounts (being the difference between the purchase cost of the securities and the related redemption price, net of issue discounts yet to mature).

Such securities are written down to reflect any lasting deterioration in the solvency of the issuers and the ability of the related nations to repay debt, except where suitable guarantees are available. The original value of investment securities is reinstated when the reasons for any writedowns cease to apply.

Dealing securities

Securities held for dealing and treasury purposes are stated at their average daily cost (as adjusted to reflect accrued issue discounts). Cost is determined as follows:

- securities quoted in organized markets: the official price quoted on the last trading day of the year;
- securities not quoted in organized markets: at the lower of cost or market value, determined with reference to quoted securities with similar characteristics. The original value of such securities is reinstated when the reasons for any writedowns cease to apply. Unquoted securities which are economically linked to derivative contracts are valued at market price, consistent with the accounting treatment of the contracts concerned.

Any transfers between the investment and dealing portfolios are made on the basis of the book value of the securities transferred at the time of the transaction; book value is determined using the method applicable to the originating portfolio. Securities transferred and still held at period-end are valued using the method applicable to the destination portfolio.

Commitments to buy or sell for securities transactions to be settled

Commitments to buy are valued on the basis applicable to the destination portfolio. The value of commitments to sell, on the other hand, takes into consideration the contractual forward sale price.

Equity investments

Equity investments not consolidated on a line-by-line basis or carried at equity are stated at cost, as revalued in the past at the time of transformation into a limited company or as a result of mergers, determined on a LIFO basis with annual increments. Cost is written down to reflect any permanent losses in value, taking into account any reductions in the equity value of the companies concerned and, where available, market prices. The original value of equity investments is reinstated if the reasons for any writedowns cease to apply.

Dividends from investments that are not consolidated line-by-line or carried at equity are recorded, gross of related tax credits, in the period in which they are collected.

Own shares

Own shares purchased by the Bank are valued at cost, determined according to the "average daily cost" method. The Bank's shares purchased by subsidiaries for normal dealing purposes are valued at market value, namely the official year-end price.

Foreign currency assets and liabilities (including off-balance sheet transactions other than derivatives)

With the introduction of the Euro, the term foreign currency refers to all currencies outside the EMU.

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currencies, or indexed to foreign exchange movements, as well as financial fixed assets funded in foreign currencies, or indexed to foreign exchange movements, are valued using the spot exchange rates applying at period-end. Equity investments funded in lire and denominated in foreign currencies subject to local exchange-control restrictions (non-convertible currencies) are stated at the historical rates of exchange applying at the time of acquisition.

Foreign currency costs and revenues are stated using the exchange rates applying at the time they arose.

Unsettled spot and forward currency transactions

Unsettled spot and forward currency transactions carried out for hedging purposes are valued in the same way as the assets and liabilities being hedged, whether they are recorded on or off the balance sheet.

Transactions not carried out for hedging purposes are valued:

- at year-end spot exchange rates, in the case of spot transactions still to be settled;
- at period-end forward exchange rates for the maturity dates concerned, in the case of forward transactions.

The effect of these valuations is debited or credited to the statement of income.

Tangible fixed assets

Tangible fixed assets are stated at purchase cost, including related charges and the cost of improvements. In certain cases, purchase cost may have been restated on transformation of the Bank at the time of mergers or as a result of applying monetary revaluation laws.

Operating assets are depreciated on a straight-line basis over their residual useful lives. Tangible fixed assets are written down in cases where there is a permanent loss in value, regardless of how much depreciation has already been accumulated. The value of such assets is reinstated in future accounting periods if the reasons for any writedowns no longer apply.

Repair and maintenance expenses that do not enhance the value of the related assets are charged against income as incurred.

Intangible fixed assets

Intangible fixed assets are stated at purchase or production cost, including related charges, and amortized over the period they are expected to benefit, as described below:

- formation and capital increase expenses and other deferred charges are generally amortized on a straight-line basis over five years;

- costs incurred for the purchase of software or for its development using external resources are generally amortized on a straight-line basis over three years, taking account of the residual period such software is expected to benefit;

- the differences arising on the merger of Banca Provinciale Lombarda and Banco Lariano in 1993 and on the merger of Crediop - Credito per le Imprese e le Opere Pubbliche in 1995, net of the portion allocated to reflect more closely the value of the related assets, are amortized on a straight-line basis. Amortization is provided over a period of ten years in the case of Banca Provinciale Lombarda and Banco Lariano, and over five years with regard to Crediop. These amortization periods are justifiable in view of the durability of the goodwill accumulated by the merged banks, as assessed in expert appraisals prepared for the respective mergers.

Payables

Payables are stated at their nominal value. The difference between the face value of loans received, or securities placed, and the amount actually received, is recorded in the financial statements among deferrals and released to the statement of income on an accruals basis, in accordance with the repayment plan implicit in the funding transaction. Zero-coupon securities issued are stated at their issue price plus accrued interest. Consistent with the policies described above, funding repurchase agreements that require the holder to resell the securities acquired when the agreement matures are recorded among payables, as are related securities borrowing transactions.

Funding repurchase agreements on securities issued by Group companies are not reported on the above basis if they are arranged by the issuing company concerned. In this case, they are recorded as securities issued with a forward repurchase commitment.

Provision for employee termination indemnities

The provision for employee termination indemnities represents the liability to each employee at period-end, accrued in accordance with current legislation and employment agreements.

Provisions for risks and charges

Provisions for risks and charges cover known or likely liabilities whose timing and extent cannot be determined at period-end or at the time the financial statements are prepared.

Pensions and similar commitments

The accumulated provisions under this heading relate to supplementary pensions for the retired employees of former IMI S.p.A.. The contingency arising in this connection is assessed on the basis of independent actuarial appraisals, in order to determine the provisions to technical reserves needed to cover future pensions.

Taxation

The provision for taxation covers income taxes and the regional tax on business activities, taking account of taxes applicable in the countries in which branches operate, deferred taxation, and outstanding or potential fiscal disputes.

Income taxes for the period are prudently determined on the basis of current fiscal legislation with reference to the expected taxable income for the full year.

Deferred taxation, determined according to the so called "balance sheet liability" method, reflects the tax effect of timing differences between the book value of assets and liabilities and their value for tax purposes, which will lead to taxable and deductible amounts in future years. To this end, taxable timing differences are defined as those which will give rise to taxable income in future years (deferred capital gains, for example); while deductible timing differences are defined as those which will give rise to deductible amounts in future years (such as provisions and costs that can be deducted for tax purposes over a period of years exceeding general writedowns fiscally allowed).

Deferred tax liabilities are calculated by applying the average tax rate to taxable timing differences likely to generate a tax burden. Deferred tax assets are calculated on deductible timing differences if these are likely to be recovered. Deferred tax assets and liabilities relating to the same kind of tax, applicable to the same entity and reversing in the same period are offset against each other.

In years when deductible timing differences are higher than taxable timing differences, the resulting net deferred tax asset is booked to the balance sheet under caption 150 – Other assets – and deducted from income taxes payable.

In years when taxable timing differences are higher than deductible timing differences, the resulting deferred tax liability is booked to the balance sheet under sub-caption 80.b – Provisions for risks and charges – taxation, and added to income taxes payable.

If the deferred tax (assets or liabilities) relates to transactions directly involving shareholders' equity without affecting the statement of income, it is debited or credited to shareholders' equity.

The deferred taxation on equity reserves that will become taxable “however used” is charged against shareholders’ equity. Deferred taxation relating to revaluations arising on conversion to the Euro, credited to a specific reserve pursuant to art. 21 of Decree 213/98, is charged directly against this reserve.

No provision is made for reserves subject to deferred taxation only in the event of distribution. This is because such reserves are allocated to accounts not available for distribution and because the events which would give rise to such taxation are not expected to occur.

Other provisions

Provisions for guarantees and commitments cover losses in respect of guarantees given and, more generally, the contingencies associated with guarantees and commitments.

Other provisions for risks and charges cover estimated losses arising from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers. They also cover possible charges in connection with guarantees given on the sale of equity investments, with the Bank's commitment to support the Interbank Deposit Guarantee Fund and with other potential liabilities.

The provision for other personnel charges comprises:

- provisions made by the Bank on the basis of an independent actuarial report to an independent supplementary pension fund to cover unfunded pension liabilities, the legally independent compulsory general insurance supplementary reserve as well as provisions for contributions that may be due in relation to the personnel of the Bank;

- provisions made on an a mathematical/actuarial basis to set up the technical reserve needed to cover long-service bonuses payable when staff celebrate twenty-five and thirty-five years of employment with the Bank.

Reserve for general banking risks

This reserve covers the general business risks of the Bank and, as such, forms part of stockholders’ equity in compliance with international supervisory standards and Bank of Italy instructions.

Accruals and deferrals

Accruals and deferrals are recognized in accordance with the matching principle. No adjustments connected with accruals and deferrals have been made directly to the balance sheet captions concerned.

Derivatives contracts

Derivatives on currency, securities, interest rates, stockmarket indices and other assets

Derivative contracts are valued individually using the methods applicable to the portfolio concerned (hedging contracts and non-hedging contracts).

The values determined are recorded separately in the balance sheet without offsetting assets and liabilities. Agreements between the parties for the compensation of reciprocal receivables and payables in the case of default by one of the counterparts ("master netting agreement") is not relevant for disclosure purposes, but is taken into consideration when assessing the counterparty's lending risk.

The values determined by the contract valuation process (hedging and non-hedging) are written down on a case-by-case and/or a general basis, where appropriate, in order to reflect the lending risk (counterparty and/or country risk) inherent in the contracts.

Hedging contracts

These are entered into with the aim of protecting the value of individual assets or liabilities, as well as any groups of assets or liabilities, on or off the balance sheet, from the risk of market fluctuations. In the case of off-balance sheet items, the hedging objective is achieved via the use of asset and liability management techniques. A transaction is considered to be a hedge in the presence of the following documented conditions:

a) intent to enter into a hedge;

b) high degree of correlation between the technical and financial characteristics of the assets and liabilities hedged and those inherent in the hedging contract.

If just one of the conditions above ceases to apply, then the contract is re-qualified as "non-hedging".

Hedging derivatives are valued on a basis consistent with the assets and liabilities being hedged. The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the period element of differentials or interest margins on contracts hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Accrued income" or "Accrued expenses". The period element of differentials on forward rate agreements hedging the interest arising from interest-earning / bearing assets and liabilities is classified among "Prepaid expenses" or "Deferred income". The market value of contracts hedging the risk of price fluctuations, and the effect of valuing contracts hedging the exchange risk on lending and funding activities (principal portion) using year-end spot exchange rates, are classified among "Other assets" or "Other liabilities". Contracts hedging investment securities, or total loans and deposits, are valued according to the valuation of the assets and liabilities being hedged.

Statement of income: where derivative contracts are intended to hedge the interest arising from interest-earning / bearing assets and liabilities, the related economic effect will form part of the interest margin on an accruals basis. In this case, the related differentials and margins are allocated either to interest income or to interest expense, depending on their nature. If, on the other hand, the derivative contract hedges the risk of market price or exchange fluctuations (principal portion), then the revenues or costs generated are treated as “Profits (losses) on financial transactions”. More specifically, differentials and margins earned on derivative contracts hedging dealing securities are treated as interest, if they relate to multiple-flow contracts (e.g. IRS) or to single-flow contracts where the duration of the underlying asset is less than one year (e.g. FRA); but as profits (losses) on financial transactions, if they relate to single-flow contracts where the duration of the underlying asset is more than one year (e.g. futures and options).

Non-hedging contracts

These are valued as follows:

Contracts on securities, interest rates, stockmarket indices and other assets: contracts quoted in organized markets are stated at their market value on the last day of the period. Contracts linked to reference indicators subject to official observation are stated on the basis of their financial value (replacement cost), determined with reference to the market quotations for those indicators on the last day of the year. Other contracts are valued with reference to other elements determined on an objective and consistent basis.

Foreign currency derivatives: these are stated using the forward exchange rates ruling at year-end for the maturity dates of the transactions subject to valuation.

The related procedures for presentation in the financial statements are summarized below:

Balance sheet: the amounts determined from the valuation of non-hedging contracts are classified as Other assets or Other liabilities.

Statement of income: the economic effects of non-hedging derivative contracts are classified as “Profits (losses) on financial transactions”. This caption is analyzed in a specific table within the explanatory notes with regard to the portfolios in which the transactions took place (securities, currency, other financial instruments) and to the nature of the income / costs arising (from valuations or elsewhere).

Internal deals

The Bank has adopted an organizational structure based on specialized trading desks that have exclusive authorization to deal in specific derivatives. The arrangement is inspired mainly by the goals of efficiency (lower transaction costs), improved management of market and counterparty risks, and the optimal allocation of specialized human resources. These desks manage portfolios consisting of various types of derivatives (and sometimes securities); they have their own books of account and established limits on net risk, and they are responsible for their own results.

The desks serve as counterparties to other desks (which are also autonomous from an accounting point of view) that are not authorized to deal in the market, by means of internal deals in derivatives at market prices. The non-specialized desks initiate these internal deals mainly for hedging purposes.

With regard to the accounting treatment of internal deals and their effect on income, it should be noted that:

- internal deals involving derivatives held in specialized desk portfolios are stated at market value;
- internal deals involving derivatives held in non-specialized desk portfolios are treated on a basis consistent with the assets or liabilities being hedged (for example, at market value if they hedge listed dealing securities and at cost if they hedge investment securities and/or deposits).

Settlement date

Currency and security transactions, interbank deposits and loans and the bills portfolio are recorded with reference to their settlement dates.

(10) ADJUSTMENTS AND PROVISIONS RECORDED FOR FISCAL PURPOSES

Value adjustments recorded solely for fiscal purposes

Adjustments recorded solely for fiscal purposes by consolidated companies in their statutory financial statements have been reversed upon consolidation.

Provisions recorded solely for fiscal purposes

Provisions recorded solely for fiscal purposes by consolidated companies in their statutory financial statements have been reversed upon consolidation.

In particular, the net income and shareholders' equity of Crediop S.p.A., consolidated using the equity method, have been increased to reflect provisions for loan losses, net of the related tax effect.

(11) LOANS

Due from banks (caption 30)

The amounts due from banks include:

Detail of caption 30 "Due to banks"

(table 1.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) deposits with central banks	668	596
(b) bills eligible for refinancing with central banks	-	-
(c) finance leases	-	-
(d) repurchase agreements	5,429	7,981
(e) securities loaned	102	42

Loans to customers (caption 40)

Loans to customers include:

Detail of caption 40 "Loans to customers"

(table 1.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Bills eligible for refinancing with central banks	-	-
(b) Finance leases	1,579	1,331
(c) Repurchase agreements	1,796	4,884
(d) Securities loaned	7	73

Secured loans to customers, excluding those granted directly to Governments or other public entities, are detailed in the table below:

Secured loans to customers
(table 1.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Mortgages	17,266	16,775
(b) Pledged assets:		
1. cash deposits	328	256
2. securities (*)	2,990	6,589
3. other instruments	158	792
(c) Guarantees given by:		
1. Governments	3,677	4,700
2. other public entities	279	259
3. banks	1,197	1,251
4. other operators	8,043	7,404
Total	**33,938**	**38,026**

(*) Includes repurchase and similar agreements guaranteed by underlying securities totalling Euro 1,803 million as of December 31, 1999 and Euro 4,902 as of December 31, 1998.

Degree of risk in loan portfolio

The principal and interest elements of loans are stated at their estimated realizable value by applying the policies described in detail in Note (9). The related writedowns are effected via direct reduction of the consolidated balance sheet asset value of the loans concerned. The estimated realizable value of problem loans takes into account not only the likelihood of recovery, but also the financial cost of discounting loans at risk to factor in their total or partial lack of income generation and late repayment.

Total adjustments as of December 31, 1999 for discounting purposes total 357 million Euro and 463 million Euro, as of December 31, 1998.

Non-performing loans
(table 1.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Non-performing loans (net amount, including default interest)	1,694	2,012

Default interest

(table 1.5 B.I.)		(in millions of Euro)
	12/31/99	12/31/98
a) Non-performing loans	-	1
b) Other loans	-	2

Analysis of loans to customers

Loans to customers for the years 1999 and 1998 are detailed in the tables below:

(in millions of Euro)

	12/31/99		
	Total loans	**Adjustments**	**Net Loans (book value)**
A. Doubtful loans	**5,920**	**3,016**	**2,904**
A.1 Non-performing loans	4,146	2,452	1,694
A.2 Problem loans	1,545	496	1,049
A.3 Loans currently being restructured	25	6	19
A.4 Restructured loans	130	36	94
A.5 Unsecured loans exposed to country risk	74	26	48
B. Performing loans	**70,544**	**274**	**70,270**
Total loans to customers	**76,464**	**3,290**	**73,174**

(in millions of Euro)

	12/31/98		
	Total loans	**Adjustments**	**Net Loans (book value)**
A. Doubtful loans	**6,798**	**3,055**	**3,743**
A.1 Non-performing loans	4,521	2,510	2,011
A.2 Problem loans	1,941	468	1,473
A.3 Loans currently being restructured	2	1	1
A.4 Restructured loans	186	35	151
A.5 Unsecured loans exposed to country risk	148	41	107
B. Performing loans	**83,459**	**315**	**83,144**
Total loans to customers	**90,257**	**3,370**	**86,887**

Analysis of loans to banks

Loans to banks for the years 1999 and 1998 are detailed below:

(in millions of Euro)

	12/31/99		
	Total loans	**Adjustments**	**Net Loans (book value)**
A. Doubtful loans	**273**	**168**	**105**
A.1 Non-performing loans	11	11	-
A.2 Problem loans	-	-	-
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	262	157	105
B. Performing loans	**22,039**	**-**	**22,039**
Total loans to banks	**22,312**	**168**	**22,144**

(in millions of Euro)

	12/31/98		
	Total loans	**Adjustments**	**Net Loans (book value)**
A. Doubtful loans	**215**	**101**	**114**
A.1 Non-performing loans	4	3	1
A.2 Problem loans	4	1	3
A.3 Loans currently being restructured	-	-	-
A.4 Restructured loans	-	-	-
A.5 Unsecured loans exposed to country risk	207	97	110
B. Performing loans	**22,979**	**-**	**22,979**
Total loans to banks	**23,194**	**101**	**23,093**

Movements in doubtful loans to customers

Movements in gross doubtful loans to customers during 1999 were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
	Gross value as of January 1, 1999	**4,522**	**1,941**	**2**	**187**	**148**
	Adjustments for the deconsolidation of Crediop and its subsidiaries	(9)	-	-	-	-
A	**Final balance**	**4,513**	**1,941**	**2**	**187**	**148**
	A.1 including: for default interest	*898*	*57*	-	-	-
B	**Increases**	**668**	**823**	**25**	**68**	**8**
	B.1 inflows from performing loans	65	558	-	44	2
	B.2 default interest	156	13	1	-	-
	B.3 transfers from other categories of doubful loans	325	61	23	22	-
	B.4 other increases	122	191	1	2	6
C	**Decreases**	**1,035**	**1,219**	**2**	**125**	**82**
	C.1 outflows to performing loans	32	155	-	35	25
	C.2 write-offs	490	45	-	6	1
	C.3 collections	441	678	-	78	36
	C.4 disposals	-	-	-	-	-
	C.5 transfers to other categories of doubtful loans	72	341	2	5	11
	C.6 other decreases	-	-	-	1	9
D	**Gross value as of December 31, 1999**	**4,146**	**1,545**	**25**	**130**	**74**
	D.1 including: for default interest	*921*	*47*	*3*	-	-

Movements in gross doubtful loans to customers during 1998 were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
	Gross value as of January 1, 1998	**4,264**	**2,275**	-	-	**223**
	Gross value ex IMI	225	39	-	-	-
A	**Final balance**	**4,489**	**2,314**	-	-	**223**
	A.1 including: for default interest	*807*	*68*	-	-	-
B	**Increases**	**898**	**1,510**	**2**	**218**	**66**
	B.1 inflows from performing loans	193	992	2	58	39
	B.2 default interest	184	22	-	-	-
	B.3 transfers from other categories of doubful loans	362	140	-	155	-
	B.4 other increases	159	356	-	5	27
C	**Decreases**	**865**	**1,883**	-	**31**	**141**
	C.1 outflows to performing loans	51	315	-	-	2
	C.2 write-offs	269	151	-	6	130
	C.3 collections	390	852	-	25	-
	C.4 disposals	-	-	-	-	-
	C.5 transfers to other categories of doubtful loans	134	515	-	-	6
	C.6 other decreases	21	50	-	-	3
D	**Gross value as of December 31, 1998**	**4,522**	**1,941**	**2**	**187**	**148**
	D.1 including: for default interest	*898*	*57*	-	-	-

Movements in doubtful amounts due from banks

Movements in gross doubtful amounts due from banks during 1999 were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
	Gross value as of January 1, 1999	**4**	**4**	**-**	**-**	**207**
	Adjustments for the deconsolidation of Crediop and its subsidiaries	-	-	-	-	-
A	**Final balance**	**4**	**4**	**-**	**-**	**207**
	A.1 including: for default interest	-	-	-	-	-
B	**Increases**	**8**	**-**	**-**	**-**	**76**
	B.1 inflows from performing loans	7	-	-	-	-
	B.2 default interest	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	1	-	-	-	-
	B.4 other increases	-	-	-	-	76
C	**Decreases**	**1**	**4**	**-**	**-**	**21**
	C.1 outflows to performing loans	-	-	-	-	5
	C.2 write-offs	1	-	-	-	-
	C.3 collections	-	3	-	-	16
	C.4 disposals	-	-	-	-	-
	C.5 transfers to other categories of doubtful loans	-	1	-	-	-
	C.6 other decreases	-	-	-	-	-
D	**Gross value as of December 31, 1999**	**11**	**-**	**-**	**-**	**262**
	D.1 including: for default interest	-	-	-	-	-

Movements in gross doubtful amounts due from banks during 1998 were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk
	Gross value as of January 1, 1998	**6**	-	-	-	**242**
	Gross value ex IMI	-	-	-	-	-
A	**Final balance**	**6**	-	-	-	**242**
	A.1 including: for default interest	-	-	-	-	-
B	**Increases**	**1**	**4**	-	-	**29**
	B.1 inflows from performing loans	1	4	-	-	-
	B.2 default interest	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	-	-	-	-	-
	B.4 other increases	-	-	-	-	29
C	**Decreases**	**3**	-	-	-	**64**
	C.1 outflows to performing loans	-	-	-	-	-
	C.2 write-offs	1	-	-	-	2
	C.3 collections	2	-	-	-	62
	C.4 disposals	-	-	-	-	-
	C.5 transfers to other categories of doubtful loans	-	-	-	-	-
	C.6 other decreases	-	-	-	-	-
D	**Gross value as of December 31, 1998**	**4**	**4**	-	-	**207**
	D.1 including: for default interest	-	-	-	-	-

Movements during 1999 in adjustments made to loans granted to customers were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
	Total adjustments as of January 1, 1999	**2,509**	**468**	**1**	**35**	**41**	**315**
	Adjustments for the deconsolidation of Crediop and its subsidiaries	-	-	-	-	-	(24)
A	**Final balance**	**2,509**	**468**	**1**	**35**	**41**	**291**
	A.1 including: for default interest	898	57	-	-	-	*5*
B	**Increases**	**621**	**232**	**7**	**22**	**7**	**21**
	B.1 adjustments	536	208	1	16	5	19
	B.1.1 including: for defaut interest	*157*	*14*	*1*	-	-	*4*
	B.2 use of reserves for possible loan losses	-	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	81	22	6	6	-	-
	B.4 other increases	4	2	-	-	2	2
C	**Decreases**	**678**	**204**	**2**	**21**	**21**	**38**
	C.1 writeback from valuations	67	42	1	9	9	3
	C.1.1 including: for default interest	-	-	-	-	-	-
	C.2 writebacks of collections	100	31	-	3	9	11
	C.2.1 including: for default interest	*29*	*11*	-	-	-	*2*
	C.3 write-offs	490	45	-	6	1	19
	C.4 transfers to other categories of doubtful loans	20	83	1	3	3	5
	C.5 other decreases	1	3	-	-	-	-
D	**Total adjustments as of December 31, 1999**	**2,452**	**496**	**6**	**36**	**27**	**274**
	D.1 including: for default interest	*921*	*47*	*3*	-	-	*9*

As already discussed, total adjustments include Euro 357 million relating to the adoption of a policy of actualising doubtful loans. Writedowns for discounting purposes total Euro 262 million on non-performing loans, Euro 74 million on problem loans and Euro 21 million on restructured loans.

Performing loans include Euro 102 million pertaining to the Bank, specifically under observation, covered by write-downs totalling Euro 12 million. The inherent risk associated with other performing loans is covered by a general write-down of Euro 262 million, estimated on an historical, statistical basis (see Part A – Accounting Principles).

Movements during 1998 in adjustments made to loans granted to customers were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
	Total adjustments as of January 1, 1998	**1,745**	**454**	-	-	**45**	**206**
	Gross value ex IMI	111	-	-	-	-	3
A	**Final balance**	**1,856**	**454**	-	-	**45**	**209**
	A.1 including: for default interest	794	68	-	-	-	*22*
B	**Increases**	**1,049**	**363**	**1**	**43**	**17**	**214**
	B.1 adjustments	564	207	1	12	17	81
	B.1.1 including: for defaut interest	*184*	*22*	-	-	-	*7*
	B.2 use of reserves for possible loan losses	-	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	128	54	-	26	-	26
	B.4 other increases	357	102	-	5	-	107
C	**Decreases**	**396**	**349**	-	**8**	**21**	**108**
	C.1 writeback from valuations	36	27	-	2	15	2
	C.1.1 including: for default interest	-	-	-	-	-	-
	C.2 writebacks of collections	54	23	-	-	-	12
	C.2.1 including: for default interest	*28*	*13*	-	-	-	*12*
	C.3 write-offs	269	151	-	6	6	40
	C.4 transfers to other categories of doubtful loans	33	146	-	-	-	54
	C.5 other decreases	4	2	-	-	-	-
D	**Total adjustments as of December 31, 1998**	**2,509**	**468**	**1**	**35**	**41**	**315**
	D.1 including: for default interest	*898*	*57*	-	-	-	*5*

As already discussed, total adjustments include Euro 463 million relating to the adoption of a policy of actualizing doubtful loans. Writedowns for discounting purposes total Euro 334 million on non-performing loans, Euro 109 million on problem loans and Euro 20 million on restructured loans.

Movements during 1999 in adjustments made to loans granted to banks were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
	Total adjustments as of January 1, 1999	**3**	**1**	-	-	**97**	-
	Adjustments for the deconsolidation of Crediop and its subsidiaries	-	-	-	-	-	-
A	**Final balance**	**3**	**1**	-	-	**97**	-
	A.1 including: for default interest	-	-	-	-	-	-
B	**Increases**	**9**	-	-	-	**67**	-
	B.1 adjustments	3	-	-	-	51	-
	B.1.1 including: for defaut interest	-	-	-	-	-	-
	B.2 use of reserves for possible loan losses	-	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	1	-	-	-	-	-
	B.4 other increases	5	-	-	-	16	-
C	**Decreases**	**1**	**1**	-	-	**7**	-
	C.1 writeback from valuations	-	-	-	-	3	-
	C.1.1 including: for default interest	-	-	-	-	-	-
	C.2 writebacks of collections	-	-	-	-	4	-
	C.2.1 including: for default interest	-	-	-	-	-	-
	C.3 write-offs	1	-	-	-	-	-
	C.4 transfers to other categories of doubtful loans	-	1	-	-	-	-
	C.5 other decreases	-	-	-	-	-	-
D	**Total adjustments as of December 31, 1999**	**11**	-	-	-	**157**	-
	D.1 including: for default interest	-	-	-	-	-	-

Movements during 1998 in adjustments made to loans granted to banks were as follows:

(Bank of Italy instructions dated 12.17.98) (in millions of Euro)

	Categories	Non-performing loans	Problem loans	Loans being restructured	Restructured loans	Unsecured loans exposed to country risk	Performing loans
	Total adjustments as of January 1, 1998	**2**	-	-	-	**39**	-
	Gross value ex IMI	-	-	-	-	-	-
A	**Final balance**	**2**	-	-	-	**39**	-
	A.1 including: for default interest	-	-	-	-	-	-
B	**Increases**	**1**	**1**	-	-	**70**	-
	B.1 adjustments	1	1	-	-	70	-
	B.1.1 including: for defaut interest	-	-	-	-	-	-
	B.2 use of reserves for possible loan losses	-	-	-	-	-	-
	B.3 transfers from other categories of doubful loans	-	-	-	-	-	-
	B.4 other increases	-	-	-	-	-	-
C	**Decreases**	-	-	-	-	**12**	-
	C.1 writeback from valuations	-	-	-	-	8	-
	C.1.1 including: for default interest	-	-	-	-	-	-
	C.2 writebacks of collections	-	-	-	-	-	-
	C.2.1 including: for default interest	-	-	-	-	-	-
	C.3 write-offs	-	-	-	-	-	-
	C.4 transfers to other categories of doubtful loans	-	-	-	-	-	-
	C.5 other decreases	-	-	-	-	4	-
D	**Total adjustments as of December 31, 1998**	**3**	**1**	-	-	**97**	-
	D.1 including: for default interest	-	-	-	-	-	-

Loans to customers and banks resident in nations exposed to country risk are analyzed below for the years 1999 and 1998:

(in millions of Euro)

Country	Total exposure as of 12/31/99	*Of which: unsecured* Gross exposure as of 12/31/99	Gross weighted exposure as of 12/31/99	Total adjustments as of 12/31/99	Net exposure as of 12/31/99
Russia	616	182	182	155	27
Brazil	130	65	31	9	56
Angola	34	-	-	-	-
Qatar	54	17	17	3	14
South Africa	5	5	5	1	4
Argentina	39	2	2	-	2
Turkey	44	7	4	-	7
Tunisia	21	16	12	1	15
India	7	3	3	1	2
Libanon	44	1	1	-	1
Iran	66	4	4	1	3
Venezuela	21	7	7	1	6
Morocco	123	6	5	1	5
Bermuda	7	-	-	-	-
Philippines	5	5	5	1	4
Bahrein	10	1	1	-	1
Pakistan	22	-	-	-	-
Algeria	29	1	-	1	-
Other countries	302	14	14	8	6
Total	**1,579**	**336**	**293**	**183**	**153**

(in millions of Euro)

Country	Total exposure as of 12/31/98	*Of which: unsecured* Gross exposure as of 12/31/98	Gross weighted exposure as of 12/31/98	Total adjustments as of 12/31/98	Net exposure as of 12/31/98
Russia	529	147	147	88	59
Brazil	73	58	45	18	40
South Korea	22	22	19	4	18
Qatar	52	19	19	3	16
South Africa	17	17	17	3	14
Thailand	19	16	15	2	14
Argentina	70	14	14	3	11
India	14	9	9	1	8
Yugosavia	5	5	5	4	1
Venezuela	17	5	5	1	4
Morocco	116	5	5	1	4
Algeria	205	8	8	1	7
Iran	169	-	-	-	-
Bermuda	53	-	-	-	-
Other countries	180	29	23	9	20
Total	**1,541**	**354**	**331**	**138**	**216**

Adjustments to unsecured loans exposed to country risk have been made by applying the writedown percentages agreed industry wide by the Italian bankers' association. In view of the continuing financial crisis in Russia, the 60% writedown for unsecured loans to customers resident in that country was increased to 85% (in the half-yearly report, based on information available at that time, this writedown had been prudently calculated at 90%). The additional writedowns following this change totalled Euro 60 million, of which Euro 46 million for loans and Euro 14 million for investment securities.

Secured loans, amounting to Euro 1,243 million in 1999 and Euro 1,197 million in 1998, are insured by SACE and other similar foreign institutions by sureties from banking operators in the OECD area (Euro 923 million in 1999 and Euro 806 million in 1998) and by other forms of guarantee deemed adequate to cover the lending risk (Euro 320 million in 1999 and Euro 390 million in 1998). The last mentioned mainly comprise loans of Euro 310 million and Euro 266 million, respectively in 1999 and in 1998, granted by the Bank to a prime customer resident in Russia, that are guaranteed by receivables deriving from supply contracts with leading West European companies. In compliance with Bank of Italy regulations, these loans are included in the calculation of country risk, which is deducted from the Bank's capital for supervisory purposes.

Other information relating to loans

Information regarding the distribution of loans, by category of borrower, industry, geographical area, maturity, liquidity and currency, is provided in Note (21).

(12) SECURITIES

Investment securities

Securities recorded in the consolidated financial statements include those which will be held long term by Group companies and declared as such in their financial statements. The investment securities portfolio is analyzed as follows:

Investment securities (table 2.1 B.I)

(in millions of Euro)

	12/31/99		12/31/98	
	Book value (a)	**Market value (b)**	**Book value (a)**	**Market value (b)**
1. Debt securities				
1.1 Government securities				
- quoted	690	712	1,488	1,547
- unquoted	-	-	-	-
1.2 other securities				
- quoted	701	676	758	768
- unquoted	365	359	96	90
2. Equities				
- quoted	-	1	-	1
- unquoted	-	-	-	-
Total	**1,756**	**1,748**	**2,342**	**2,406**

The following tables show changes in investment securities during 1999 and 1998:

(table 2.2 B.I.)	(in millions of Euro)
Opening balance January 1, 1999	**2,342**
Deconsolidation of Crediop and its subsidiaries	(1)
A. Final balance	**2,341**
B. Increases	**766**
B1. Purchases	233
B2. writebacks	2
B3. transfers from dealing portfolio	393
B4. other changes	138
C. Decreases	**1,351**
C1. sales	83
C2. redemptions	1,094
C3. adjustments	15
including:	
permanent writedowns	14
C4. transfers to dealing portfolio	33
C5. other changes	126
D. Closing balance December 31, 1999	**1,756**

	(in millions of Euro)
Opening balance January 1, 1998	**2,776**
Opening balance ex IMI	187
A. Final balance	**2,963**
B. Increases	**466**
B1. purchases	253
B2. writebacks	-
B3. transfers from dealing portfolio	5
B4. other changes	208
C. Decreases	**1,087**
C1. sales	34
C2. redemptions	647
C3. adjustments	26
including:	
permanent writedowns	26
C4. transfers to dealing portfolio	136
C5. other changes	244
D. Closing balance December 31, 1998	**2,342**

Dealing securities

Dealing securities comprise:

(table 2.3 B.I.) (in millions of Euro)

	12/31/99		12/31/98	
	Book value	**Market value**	**Book value**	**Market value**
1. Debt securities				
1.1 Government securities				
- quoted	8,281	8,281	14,748	14,748
- unquoted	419	419	189	189
1.2 other securities				
- quoted	3,199	3,199	2,991	2,991
- unquoted	3,282	3,286	4,251	4,267
2. Equities				
- quoted	1,435	1,435	1,197	1,197
- unquoted	8	8	3	4
Total	**16,624**	**16,628**	**23,379**	**23,396**

Own bonds held for dealing purposes amount to Euro 1,388 million and Euro 1,449 million, respectively as for 1999 and 1998.

The following tables show changes in dealing securities during 1999 and 1998

(table 2.4 B.I.)	(in millions of Euro)
Opening balance as of January 1, 1999	**23,380**
Deconsolidation of Crediop and its subsidiaries	(1,820)
A. Final balance	**21,560**
B. Increases	**383,167**
B1. purchases	380,325
– *debt securities*	*356,728*
– *Government securities*	*251,945*
– *other securities*	*104,783*
– *equities*	*23,597*
B2. writebacks and revaluations	309
B3. transfers from investment portfolio	33
B4. other changes	2,500
C. Decreases	**388,103**
C1. sales and redemptions	386,526
– *debt securities*	*362,912*
– *Government securities*	*258,151*
– *other securities*	*104,761*
– *equities*	*23,614*
C2. adjustments	151
C3. transfers to investment portfolio	393
C5. other changes	1,033
D. Closing balance as of December 31, 1999	**16,624**

(table 2.4 B.I.)	(in millions of Euro)
Opening balance as of January 1, 1998	**16,641**
Opening balance ex -IMI	8,730
A. Final balance	**25,371**
B. Increases	**473,805**
B1. purchases	471,972
– *debt securities*	*459,148*
– *Government securities*	*404,895*
– *other securities*	*54,253*
– *equities*	*12,824*
B2. writebacks and revaluations	94
B3. transfers from investment portfolio	136
B4. other changes	1,603
C. Decreases	**475,796**
C1. sales and redemptions	474,063
– *debt securities*	*460,806*
– *Government securities*	*406,336*
– *other securities*	*54,470*
– *equities*	*13,257*
C2. adjustments	87
C3. transfers to investment portfolio	5
C5. other changes	1,641
D. Closing balance as of December 31, 1998	**23,380**

Other information relating to securities

The composition of the securities portfolio is analyzed by geographical area, currency and liquidity in Note (21).

(13) INVESTMENTS

Significant investments

Significant investments held by the Group, being those in subsidiary companies or in companies subject to significant influence, as defined in articles 4 and 19 of Decree 87/92, are indicated in the table below:

Significant investments (table 3.1 B.I.)

	Name	Registred offices	Type of relationship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership: Held by	Ownership: %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)
A.	**Companies consolidated line- by-line**								
	Sanpaolo - IMI Spa (Parent Bank)	Turin		7,201	1,018				
	A. 1 Line-by-line								
1	Banca Fideuram S.p.A.	Milan	1	493	96	SanpaoloIMI	74.00	74.00	XXX
2	Banca d'Intermediazione Mobiliare IMI S.p.A. (Banca IMI)	Milan	1	413	64	SanpaoloIMI	100.00	100.00	XXX
3	Banca IMI Securities Corp. (ex Mabon Sec. Corp.)	Usa	1	149	4	IMI Capital	100.00	100.00	XXX
4	Banque Sanpaolo	France	1	428	49	SanpaoloIMI	100.00	100.00	XXX
5	Bonec Ltd	Ireland	1	1	1	SanpaoloIMI Bank Ireland	100.00	100.00	XXX
6	Fideuram Bank S.A.	Luxembourg	1	31	10	Banca Fideuram	99.99	99.99	XXX
						Fideuram Vita	0.01	0.01	XXX
							100.00	100.00	XXX
7	Fideuram Capital Spa (ex IMI Fideuram Asset Management SIM Spa	Milan	1	23	11	Banca Fideuram	100.00	100.00	XXX
8	Fideuram Fiduciaria S.p.A.	Rome	1	2	-	Banca Fideuram	100.00	100.00	XXX
9	Fideuram Fondi S.p.A.	Rome	1	47	2	Banca Fideuram	99.25	99.25	XXX
10	Fideuram Gestioni Patrimoniali SIM S.p.A.	Milan	1	10	5	Banca Fideuram	100.00	100.00	XXX
11	Fideuram Gestions S.A.	Luxembourg	1	1	-	Banca Fideuram	99.99	99.99	XXX
						Fideuram Vita	0.01	0.01	XXX
							100.00	100.00	
12	Fonditalia Management Company S.A.	Luxembourg	1	142	131	Banca Fideuram	99.96	99.96	XXX
						Fideuram Vita	0.04	0.04	XXX
							100.00	100.00	
13	IDEA S.A. (Ex Societé de Gest. Du Funds I.M.I.F)	Luxembourg	1	-	-	IMI Bank (Lux) S.A.	99.16	99.16	XXX
						IMI International	0.83	0.83	XXX
							99.99	99.99	
14	IMI Bank (Lux) S.A.	Luxembourg	1	90	5	Banca IMI	99.99	99.99	XXX
						IMI Sigeco (UK) Ltd	0.01	0.01	XXX
							100.00	100.00	
15	IMI Capital Markets USA Corp.	USA	1	152	1	IMI Investments	100.00	100.00	XXX
16	IMI International S.A. (will become Sanpaolo IMI International)	Luxembourg	1	597	32	Sanpaolo IMI	100.00	100.000	XXX

	Name	Registred offices	Type of relation-ship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership Held by	Ownership %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)
17	IMI Investments S.A.	Luxembourg	1	150	-	Banca IMI	99.99	99.99	XXX
						IMI International S.A.	0.01	0.01	XXX
							100.00	100.00	
18	IMI Lease S.p.A.	Rome	1	233	7	Sanpaolo IMI	100.00	100.000	XXX
19	IMI Real Estate S.A.	Luxembourg	1	3	-	IMI Bank (Lux) S.A.	99.99	99.99	XXX
						IMI International S.A.	0.01	0.01	XXX
							100.00	100.00	
20	IMI Sigeco (UK) Ltd	United Kindom	1	19	2	Banca IMI	100.00	100.00	XXX
21	Imil Ltd.	Jersey	1	48	4	IMI International S.A.	100	100	XXX
22	Imitec Spa	Rome	1	3	-	Banca Fideuram	100.00	100.00	XXX
23	Indipendent Management for Istitutional Adisory Co. S.A.	Luxembourg	1	-	-	IMI Bank (Lux) S.A.	99.80	99.80	XXX
						IMI Sigeco (UK) Ltd	0.20	0.20	XXX
							100.00	100.00	
24	Interfund Advisory Company	Luxembourg	1	25	25	Banca Fideuram	99.92	99.92	XXX
						Fideuram Vita	0.08	0.08	XXX
							100.00	100.00	
25	Int. Securities Advisory Company S.A.	Luxembourg	1	1	1	Banca Fideuram	99.98	99.98	XXX
						Fideuram Vita	0.02	0.02	XXX
							100.00	100.00	
26	@IMIWeb S.I.M. Spa (ex Itersim)	Milan	1	30	12	Banca IMI	100.00	100.00	XXX
27	Lackenstar Ltd	Ireland	1	1	1	SanpaoloIMI Bank Ireland	100.00	100.00	XXX
28	LDV Holding B.V.	Netherlands	1	107	19	NHS - Nuova holding Subapina	100.00	100.00	XXX
29	NHS -Nuova Holding Subalpina Spa	Turin	1	757	21	SanpaoloIMI	51.00	51.00	XXX
30	Sanpaolo Asset Management S.A.	France	1	2	1	Banque Sanpaolo	99.97	99.97	XXX
						SCI Parisienne de l'Avenue Hoche	0.01	0.01	XXX
						Societé Fonciere d'Investissement	0.01	0.01	XXX
						Societé Immobilliere d'Investissement	0.01	0.01	XXX
							100.00	100.00	
31	Sanpaolo Bail S.A.	France	1	5	1	Banque Sanpaolo	99.97	99.97	XXX
						Sanpaolo Mur	0.01	0.01	XXX
						Societé Fonciere d'Investissement	0.01	0.01	XXX
						Societé Immobilliere d'Investissement	0.01	0.01	XXX
							100.00	100.00	
32	Sanpaolo Bank (Austria) AG	Austria	1	11	2	Sanpaolo bank	100.00	100.00	XXX
33	Sanpaolo Bank SA	Luxembourg	1	53	14	SanpaoloIMI	100.00	100.00	XXX
34	Sanpaolo Fiduciaria SPA	Turin	1	2	-	SanpaoloIMI	100.00	100.00	XXX

	Name	Registred offices	Type of relation-ship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership: Held by	Ownership: %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)
35	Sanpaolo Fonds Gestion Snc	Luxembourg	1	7	7	Banque Sanpaolo	80.00	80.00	XXX
						Sanpaolo Asset	20.00	20.00	XXX
							100.00	100.00	
36	Sanpaolo Gestion Internationale SA	Luxembourg	1	19	18	SanpaoloIMI	99.98	99.98	XXX
						Sanpaolo bank	0.02	0.02	XXX
							100.00	100.00	
37	SANPAOLO IMI Asset Management Spa	Turin	1	58	25	SanpaoloIMI	100.00	100.00	XXX
38	SANPAOLO IMI BANK (International) S.A.	Madeira	1	194	5	SanpaoloIMI	69.01	69.01	XXX A
	(ex IMI Bank International)					IMI International	30.99	30.99	XXX
							100.00	100.00	
39	SANPAOLO IMI BANK Ireland Plc	Ireland	1	427	22	SanpaoloIMI	100.00	100.00	XXX
	(ex Sanpaolo Bank Ireland								
40	SANPAOLO IMI US Financial CO.	USA	1	-	-	SanpaoloIMI	100.00	100.00	XXX
	(ex Sanpaolo IMI Financial CO:)								
41	Sanpaolo Immobiliare S.p.A	Turin	1	5	(1)	SanpaoloIMI	100.00	100.00	XXX
42	Sanaolo Invest Sim S.p.A.	Rome	1	77	21	SanpaoloIMI	100.00	100.00	XXX
43	Sanpaolo Leasint S.p.A.	Milan	1	59	8	SanpaoloIMI	100.00	100.00	XXX
44	San Paolo Mur S.A.	France	1	3	-	Banque Sanpaolo	99.99	99.99	XXX
						Sanpaolo Bail	0.01	0.01	XXX
							100.00	100.00	
45	Sanpaolo Riscossioni Genova S.p.A.	Genoa	1	7	3	SanpaoloIMI	100.00	100.00	XXX
46	Sanpaolo RiscossioniI Prato S.p.A.	Prato	1	2	1	SanpaoloIMI	100.00	100.00	XXX
47	Sanpaolo Services Luxembourg S.A.	Luxembourg	1	-	-	SanpaoloIMI	99.60	99.60	XXX
						Sanpaolo Bank	0.40	0.40	XXX
							100.00	100.00	
48	SEP S.p.A.	Turin	1	2	-	SanpaoloIMI	100.00	100.00	XXX
49	Societé de Gestion du funds commun de placement Fideuram Fund S.A. .	Luxembourg	1	2	2	Banca Fideuram	99.20	99.20	XXX
						Fideuram Vita	0.80	0.80	XXX
							100.00	100.00	
50	Tobuk Ltd	Ireland	1	2	2	SanpaoloIMI Bank Ireland	100.00	100.00	XXX
51	Turis A.G.	Switzerland	1	23	-	Banca Fideuram	100.00	100.00	XXX
					-				
52	Tushingham Ltd	Ireland	1	-	-	SanpaoloIMI Bank Ireland	100.00	100.00	XXX
A2	*Proportional method*								
1	Finconsumo S.p.A.	Torino	7	35	9	SanpaoloIMI	50.00	50.00	XXX

	Name	Registred offices	Type of relationship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership Held by	Ownership %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)	
B.	**Carried on Equity**									
	Subsidiaries									
1	Cedar Street Securities Corp.	USA	1	-	-	Banca IMI	100.00	100.00	-	*(B)*
2	Consorzio Studi e Ricerche Fiscali Cons.	Rome	1	-	-	Sanpaolo IMI	50.00	50.00		
						Banca Fideuram	15.00	15.00		
						Fideuram Vita	5.00	5.00		
						Banca IMI	10.00	10.00		
						Sanpaolo Leasint	5.00	5.00		
						Sanpaolo IMI Asset Management	5.00	5.00		
							90.00	90.00		
3	FC Factor Srl	Turin	7	1	-	Finconsumo	100.00	100.00	1	
4	Fideuram Assicurazioni S.p.A.	Rome	1	10	2	Banca Fideuram	100.00	100.00	10	
5	Fideuram Vita S.p.A.	Rome	1	293	53	Banca Fideuram	99.75	100.00	285.00	
6	Gedit SA	Luxembourg	1	-	-	Sanpaolo Imi	90.00	90.00		
						Prospettive 2001	10.00	10.00		
							100.00	100.00		
7	IMI Sigeco (Nominees) Ltd.	United Kindom	1	-	-	IMI Sigeco (UK)	100.00	100.00		(B)
8	Indipendent Management for Institutionals SICAV	Luxembourg	1	-	-	IMI Bank (Lux)	50.00	50.00		
						Ind.Man.Inst.Adv.	50.00	50.00		
							100.00	100.00		
9	Leasint Servizi Integrati SpA	Milan	1	1	-	Sanpaolo Leasint	100.00	100.00	1	
10	Prospettive 2001 SpA	Milan	1	12	(7)	Sanpaolo IMI	100.00	100.00	13	
11	Sanpaolo Gestion Immobiliere S.A.	France	7	-	-	Banque Sanpaolo	99.98	99.98		
						Sanpaolo Bail	0.01	0.01		
						Societé Civile Parisienne de l'Av. Hoche	0.01	0.01		
							100.00	100.00		
12	Sanpaolo IMI Institutional Asset Management SGR Spa	Monza	1	1	-	Banca IMI	15.00	15.00		
						Sanpaolo IMI Asset Management	55.00	55.00	1	
						Fideuram Capital	30.00	30.00		
							100.00	100.00		
13	Sanpaolo IMI Investments SA	Luxembourg	1	1	-	Sanpaolo IMI	99.90	99.90	1	
						IMI International	0.10	0.10		
							100.00	100.00		
14	Sanpaolo IMI Management Ltd	United Kindom	1	-	-	Nhs- Nuova Holding Subapina	100.00	100.00		
15	Sanpaolo IMI Private Equity Spa (ex IMI - ABN _ Amro Inv.)	Turin	1	-	-	Nhs- Nuova Holding Subapina	100.00	100.00		
16	Sanpaolo Invest Ireland Limited	Ireland	1	-	-	Sanpaolo Invest SIM	100.00	100.00		
17	Sanpaolo Leasint GMBH	Austria	1	-	-	Sanpaolo Leasint	100.00	100.00		
18	Sanpaolo Life Ltd	Ireland	1	7	7	Sanpaolo Vita	100.00	100.00		(C)
19	Sanpaolo Vita Spa	Milan	1	119	24	Sanpaolo IMI	100.00	100.00	123	
20	Servizi Previdenziali Spa	Milan	1	-	-	Fideuram Capital	100.00	100.00		
21	Sociaté Civile Les Jardins d'Arcadie	France	1	-	-	Banque Sanpaolo	55.00	55.00	-	
22	Societé Civile Parisienne de l'Av. Hoche	France	1	-	-	Banque Sanpaolo	100.00	100.00	3	
23	Socavie	France	1	3	3	Banque Sanpaolo	99.80	99.80	3	
						Societé Fonciere d'Investissement	0.20	0.20		
							100.00	100.00		

	Name	Registred offices	Type of relation-ship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership: Held by	Ownership: %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)	
24	Societé Fonciere d'Investissement	France	1	-	-	Banque Sanpaolo	99.92	99.92		
						Societé Civile Parisienne de l'Av. Hoche	0.08	0.08		
							100.00	100.00		
25	Societé Immobiliere d'Investissement	France	1	-	-	Banque Sanpaolo	99.98	99.98		
						Societé Fonciere d'Investissement	0.02	0.02		
							100.00	100.00		
26	Spb 1650 Van Ness Corp.	Usa	1	-	-	Sanpaolo IMI	100.00	100.00		
27	SPB Delta Towers LLC	Usa	1	-	-	Sanpaolo IMI	100.00	100.00		
28	Spei S.p.A.	Rome	1	-	-	IMI Lease	100.00	100.00	1	
29	Apokè Two Srl (in liq.)	Milan	1	-7	1	Sanpaolo IMI	100.00	100.00	-	
30	Crediop Finance PLC (in liq.)	United Kingdom	1	-	-	Sanpaolo IMI	100.00	100.00	-	
31	Fidimi Consulting S.p.A. (in liq.)	Rome	1	-	-	Sanpaolo IMI	100.00	100.00	-	(B)
32	Imifin S.p.A. (in liq.)	Rome	1	-	-	Sanpaolo IMI	100.00	100.00	-	
33	IMI Bank A.G. (in liq.)	Germany	1	-	-	IMI Bank Lux	95.24	95.24	-	
						IMI International	4.76	4.76	-	
							100.00	100.00		
34	Sanpaolo U.S. Holding Co. (in liq.)	Usa	1	3	-	Sanpaolo IMI	100.00	100.00	3	
	Altre minori								3	(D)
	Total investments in Group companies carried at net equity								**448**	
	Other									
35	Azimut S.p.A.	Viareggio	8	35	22	LDV Holding	13.33	13.33	5	
						NHS-Nuova Holding Subalpina	6.67	6.67	2	
							20.00	20.00		
36	Bafin S.p.A.	Castelfidardo	8	7	1	LDV Holding	23.00	23.00	2	(B)
37	Banca Italo-Romena S.p.A.	Milan	8	11	-2	Sanpaolo IMI	20.00	20.00	1	
38	Banque Michel Inchauspe S.A. (BAMI)	France	8	21	3	Banque Sanpaolo	20.00	20.00	4	
39	Beaujon Immobilière (ex Options Financieres)	France	7	-	-	Banque Sanpaolo	50.00	50.00	-	
40	BNC Assicurazioni S.p.A.	Rome	8	149	4	Sanpaolo IMI	30.00	30.00	45	(B)
41	CBE Service	Belgio	8	-	-	Sanpaolo IMI	20.00	20.00	-	
42	Conservateur Finance S.A.	France	8	17	-	Banque Sanpaolo	20.00	20.00	3	
43	Crediop S.p.A.	Rome	8	722	82	Sanpaolo IMI	40.00	40.00	289	(E)
44	Egida Compagnia di Assicuazioni S.p.A.	Turin	7	8	-	Sanpaolo IMI	50.00	50.00	4	(B)
45	Esatri S.p.A.	Milan	8	58	13	Sanpaolo IMI	31.50	31.50	19	
46	Eurofondo S.C.p.A.	Rome	8	-	-	Sanpaolo IMI	25.00	25.00	-	
47	Eurosic S.A.	France	8	29	1	Banque Sanpaolo	32.77	32.77	10	
48	Finnat Investments S.p.A.	Rome	8	1	1	Sanpaolo IMI	20.00	20.00	-	(B)
49	IMAB Beteiligungus-GMBH	Austria	8	7	-	LDV Holding	30.00	30.00	2	(B)
50	Inter-Europa Bank RT	Hungary	8	35	-12	Sanpaolo IMI	32.51	32.51	8	
51	Logiasit S.A.	France	8	-	-	Banque Sanpaolo	20.00	20.00	-	

	Name	Registred offices	Type of relationship (*)	Share-holders' equity (Euro: millions) (**)	Net income (losses) (Euro: millions) (**)	Ownership: Held by	Ownership: %	Voting rights at share-holders' meeting %	Consolidated Book values (Euro: millions) (**)	
52	Nuova Strategia S.p.A.	Milan	8	-	-	LDV Holding	26.67	26.67	-	
53	San Marino Gestion S.A.	Lussemburgo	8	1	-	Sanpaolo Bank SA	20.00	20.00	-	(B)
54	Societé Civile 26 Rue Richard Gardebled	France	8	-	-	Banque Sanpaolo	20.00	20.00	-	
55	Societé Civile 4 Avenue Bouisson Bertrand	France	8	-	-	Banque Sanpaolo	20.00	20.00	-	
56	Societé Civile Domaine de La Flambelle	France	8	-	-	Banque Sanpaolo	25.00	25.00	-	
57	Societé Civile du 41 Avenue Bouisson Bertrand	France	8	-	-	Banque Sanpaolo	25.00	25.00	-	
58	Societé Civile le Jardin de Nazareth	France	8	-	-	Banque Sanpaolo	20.00	20.00	-	
59	Societé Civile Le Maestro	France	8	-	-	Banque Sanpaolo	20.00	20.00	-	
60	Societé Civile les Jardins du Ponant	France	8	-	-	Banque Sanpaolo	25.00	25.00	-	
61	Societé Civile Res Club les Arcades	France	8	-	-	Banque Sanpaolo	25.00	25.00	-	
62	Societé Civile St. Gratien Village	France	8	-	-	Banque Sanpaolo	30.00	30.00	-	
63	Societé d'Etudes Ficatier-Courbevoie	France	8	-	-	Banque Sanpaolo	50.00	50.00	-	
64	Consorzio Bancario SIR S.p.A. (in liq.)	Rome	8	2	-	Sanpaolo IMI	32.49	32.49	-	
65	Finexpance S.p.A. (in liq.)	Chiavari	8	-8	-	Sanpaolo IMI	30.00	30.00	-	
66	Galère 28 (in liq.)	France	8	-	-	Banque Sanpaolo	23.44	23.44	-	
67	Galileo Holding (in liq.)	Venice	8	-18	-8	Sanpaolo IMI	31.52	31.52	-	(B)
	Other investments								1	(D)
						Total other investments carried at equity			**395**	
						Total investments carried at equity			**843**	

(*) Type of relationship.
1 = control pursuant to art. 2359.1.1 of the Italian Civil Code (majority of voting rights at an ordinary meeting):
7 = joint control pursuant to art. 35.1 of Decree 87/92;
8 = associated company pursuant to art. 36.1 of Decree 87/92: companies over which a "significant influence" is exercised, which is expected to exist if a least 20% of the voting rights at an ordinary meeting are held.
(**) Shareholders' equity for consolidated companies is that used for the consolidated financial statement. Shareholders' equity includes the portion of the net income, before allocation of dividends (net of any interim dividends);
(A) The name change is being ratified by the Portuguese authorities.
(B) Shareholders' equity figures refer to the financial statements of the December, 31 1998.
(C) Controlled by Sanpaolo Vita Spa, which in turn is carried at equity.
(D) This represents the total value of equity investments shown in the balance sheet at less than Euro 500,000.
(E) The Shareholders' equity shown here is consolidated.

Composition of the investment portfolio

Analysis of caption 80 "Investments in Group companies"

(Table 3.5 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Investment in banks		
1. quoted	-	-
2. unquoted	1	1
(b) Investment in financial institutions		
1. quoted	-	-
2. unquoted	9	5
(c) Other investments		
1. quoted	-	-
2. unquoted	438	374
Total	**448**	**380**

Analysis of caption 70 "Equity investments"

(Table 3.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Investments in banks		
1. quoted	1,022	111
2. unquoted	443	133
(b) Investments in financial institutions		
1. quoted	10	-
2. unquoted	66	151
(c) Other investments		
1. quoted	1,235	430
2. unquoted	123	117
Total	**2,899**	**942**

The following tables show the changes during the years 1999 and 1998 in the investment portfolio

Investments in Group companies

(Table 3.6 B.I.) (in millions of Euro)

Opening balance as of January 1, 1999	**380**
Deconsolidation of Crediop and its subsidiaries	391
A. Final balance	**771**
B. Increases	**327**
B1. purchases	152
B2. writebacks	-
B3. revaluations	-
B4. other changes	175
C. Decreases	**650**
C1. sales	219
C2. adjustments	1
including:	
permanent writedowns	1
C3. other changes	430
D. Closing balance as of December 31, 1999	**448**
E. Total revaluations	-
F. Total adjustments	1

(in millions of Euro)

Opening balance as of January 1, 1998	**90**
Opening balance ex- IMI	235
A. Final balance	**325**
B. Increases	**101**
B1. purchases	33
B2. writebacks	-
B3. revaluations	-
B4. other changes	68
C. Decreases	**46**
C1. sales	12
C2. adjustments	16
including:	-
permanent writedowns	16
C3. other changes	18
D. Closing balance as of December 31, 1998	**380**
E. Total revaluations	-
F. Total adjustments	-

Other equity investments

(Table 3.6.2 B.I.)

	(in millions of Euro)
Opening balance as of January 1, 1999	**942**
Deconsolidation of Crediop and its subsidiaries	(41)
A Final balances	**901**
B. Increases	**2,975**
B1. purchases	2,002
B2. writebacks	-
B3. revaluations	-
B4. other changes	973
C. Decreases	**977**
C1. sales	584
C2. adjustments	74
including:	
permanent writedowns	74
C3. other changes	319
D. Closing balance as of December 31, 1999	**2,899**
E. Total revaluations	**107**
F. Total adjustments	**364**

	(in millions of Euro)
Opening balance as of January 1, 1998	**372**
Deconsolidation of Crediop and its subsidiaries	703
Sanpaolo shares held by IMI	(215)
A Final balances	**860**
B. Increases	**281**
B1. purchases	230
B2. writebacks	-
B3. revaluations	-
B4. other changes	51
C. Decreases	**199**
C1. sales	120
C2. adjustments	25
including:	-
permanent writedowns	25
C3. other changes	54
D. Closing balance as of December 31, 1998	**942**
E. Total revaluations	**107**
F. Total adjustments	**286**

Amounts due to and from Group companies and investments (non-Group companies)

The following table sets out the amounts due to and from companies belonging to the SanPaolo IMI Banking Group, as defined pursuant to article 4 of Decree 87/92, and the amounts due to and from investments that are not part of the Group:

Amounts due to and from Group companies

(Table 3.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Assets		
1. due from banks	-	-
of which:		
' - subordinated	-	-
2. due from financial institutions	-	-
of which:		
'- subordinated	-	
3. due from other customers	76	251
of which:		
' - subordinated	-	
4. bonds and other debt securities	-	-
of which:		
' - subordinated	-	-
Total assets	**76**	**251**
(b) Liabilities		
1. due to banks	-	-
2. due to financial institutions	3	-
3. due to other customers	72	46
4. securities issued	867	150
5. subordinated liabilities	-	-
Total liabilities	**942**	**196**
(c) Guarantees and commitments		
1. guarantees given	4	3
2. commitments	4	-
Total guarantees and commitments	**8**	**3**

Amounts due to and from investments (non-Group companies)

(Table 3.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Assets		
1. due from banks	1,180	944
of which:		
- subordinated	20	-
2. due from financial institutions	522	407
of which:		
- subordinated	-	-
3. due from other customers	2,158	1,893
of which:		
- subordinated	24	-
4. bonds and other debt securities	275	264
of which:		
- subordinated	-	-
Total assets	**4,135**	**3,508**
(b) Liabilities		
1. due to banks	1,919	206
2. due to financial institutions	97	73
3. due to other customers	28	185
4. securities issued	-	-
5. subordinated liabilities	-	-
Total liabilities	**2,044**	**464**
(c) Guarantees and commitments		
1. guarantees given	363	406
2. commitments	-	41
Total guarantees and commitments	**363**	**447**

Amounts due to and from Group companies and non-Group companies are detailed in Note (29).

(14) TANGIBLE AND INTANGIBLE FIXED ASSETS

The following tables show the changes in tangible fixed assets during the years 1999 and 1998.

(Table 4.1 B.I.)	(in millions of Euro)
Opening balance January 1, 1999	**1,669**
Adjustment due to the deconsolidation of Crediop and its subsidiaries	(63)
A. Final balances	**1,606**
B. Increases	**100**
B1. purchases	93
B2. writebacks	-
B3. revaluations	-
B4. other changes	7
C. Decreases	**586**
C1. sales	11
C2. adjustments	
(a) depreciation	133
(b) permanent writedowns	-
C3. other changes	442
D. Closing balance December 31, 1999	**1,120**
E. Total revaluations	**927**
F. Total adjustments	**1,310**
(a) accumulated depreciation	1,302
(b) permanent writedowns	8

	(in millions of Euro)
Opening balance January 1, 1998	**1,449**
Opening balance of ex - IMI	385
A. Final balances	**1,834**
B. Increases	**112**
B1. purchases	90
B2. writebacks	-
B3. revaluations	-
B4. other changes	22
C. Decreases	**277**
C1. sales	102
C2. adjustments	
(a) depreciation	150
(b) permanent writedowns	-
C3. other changes	25
D. Closing balance December 31, 1998	**1,669**
E. Total revaluations	**1,260**
F. Total adjustments	**1,291**
(a) accumulated depreciation	1,270
(b) permanent writedowns	21

The following tables show the changes in intangible fixed assets during 1999 and 1998.

(Table 4.2 B.I.)	(in millions of Euro)
Opening balance as of January 1, 1999	**302**
Adjustment due to the deconsolidation of Crediop and its subsidiaries	(6)
A. Final balance	**296**
B. Increases	**111**
B1. purchases	104
B2. writebacks	-
B3. revaluations	-
B4. other changes	7
C. Decreases	**140**
C1. sales	1
C2. adjustments	
(a) depreciation	132
(b) permanent writedowns	-
C3. other changes	7
D. Closing balance as of December 31, 1999	**267**
E. Total revaluations	
F. Total adjustments	**349**
(a) accumulated amortization	349
(b) permanent writedowns	-

	(in millions of Euro)
Opening balance January 1, 1998	**238**
Opening balance ex - IMI	35
A. Final balance	**273**
B. Increases	**157**
B1. purchases	96
B2. writebacks	-
B3. revaluations	-
B4. other changes	61
C. Decreases	**128**
C1. sales	1
C2. adjustments	-
(a) depreciation	116
(b) permanent writedowns	-
C3. other changes	11
D. Closing balance as of December 31, 1998	**302**
E. Total revaluations	-
F. Total adjustments	**368**
(a) accumulated amortization	368
(b) permanent writedowns	-

Intangible assets include:

- Goodwill of merged companies; infact the differences arising on the mergers of Banca Provinciale Lombarda and Banco Lariano in 1993 are recorded in the financial statements since they represent goodwill relating to merged companies. Such differences are stated net of the amounts allocated to the related assets acquired. The amortization of the goodwill relating to the merger of Crediop has been completed in the year.

- Goodwill, which reflects the value generated on acquisition of a business segment in prior years. It is currently being amortized in the financial statements of a finance company that formed part of the IMI Group.

- Other deferred charges:
- Euro 78 million and Euro 71million in EDP costs which will benefit future years, Euro 15 million and Euro 19 million of which refers to investments made in connection with the introduction of the Euro, respectively in 1999 and 1998;
- Euro 57 million for software expenses;
- Euro 19 million and Euro 16 million for leasehold improvements, respectively in 1999 and 1998;
- Euro 2 million and Euro 3 million for start-up and expansion costs, respectively in 1999 and 1998.

The criteria used for booking costs connected with the Euro and Y2K projects are in line with the current accounting principles and Consob recommendations. The nature of the costs has been analysed and the booking of intangible assets to assets that benefit future years has been kept to the minimum.No advances have been paid for the purchase of intangible fixed assets.

(15) OTHER ASSETS

Consolidated asset caption 150 and 160 comprise the following:

Other assets (caption 150)

Analysis of caption 150 "Other assets"

(Table 5.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Valuation of derivatives on interest rates and stockmarket index prices	9,289	7,186
Other	1,708	1,103
Due from tax authorities	1,115	843
'- tax credits relating to prior years	*125*	*313*
'- tax withholdings overpaid during the year on bank interest income	*122*	*64*
'- taxes withheld during the year	*20*	*27*
'- taxes paid in advance on termination indemnities (Law 662/96)	*48*	*47*
'- prepaid current year direct taxes	*684*	*281*
'- other credits	*116*	*111*
Unprocessed transactions (a)	1,104	784
Effect of currency hedges, forex swap and cross-currency swap transactions	972	471
Amounts in transit between branches (a)	605	1,769
Deferred tax assets (b)	558	-
Premiums paid on purchased options	364	175
Tax collection accounts	205	151
Transactions by foreign branches	133	607
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	89	48
Checks and other instruments held	39	37
Items relating to securities transactions	18	30
Deposits with clearing-houses to secure derivative contracts	-	21
Other debit balances due for settlement	-	214
Total	**16,199**	**13,439**

(a) Mostly settled at the beginning of 2000.
(b) More details on deferred tax assets can be found in note 19.

The criteria adopted for the disclosure of deferred tax assets have been modified in line with indications provided be the Bank of Italy. These are now classified under caption 150 – rather than under caption 160 b) prepaid expenses.

Accrued income and prepaid expenses (caption 160)

Analysis of caption 160 "Accrued income and prepaid expenses"

(Table 5.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Accrued income		
- income from derivative contracts	3,349	2,980
- interest from loans to customers	636	947
- interest on securities	291	504
- bank interest	87	36
- other income	72	35
Prepaid expenses		
- current income taxes paid in advance	-	558
- discounts on bond issues	8	60
- commission on placement of securities and mortgage loans	60	107
- charges on derivative contracts	28	67
- other charges	118	74
Total	**4,649**	**5,368**

The criteria adopted for the disclosure of deferred tax assets have been modified in line with indications provided by the Bank of Italy. These are now classified under caption 150 – rather than under caption 160 b) prepaid expenses.

Distribution of subordinated assets

(Table 5.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Due from banks	33	21
(b) Loans to customers	38	5
(c) Bonds and other debt securities	99	105
Total	**170**	**131**

(16) PAYABLES

Due to banks (caption 10)

Deposits taken from banks are analyzed as follows:

(in millions of Euro)

	12/31/99	12/31/98
Due to central banks		
- repurchase agreements and securities borrowed	4,477	-
- other deposits from the Italian Exchange Office	35	37
- other deposits from central banks	558	196
- advances	-	24
Due to banks		
- deposits	13,661	10,175
- other loans	-	-
- repurchase agreements and securities borrowed	1,249	5,163
- long-term loans from international bodies	4,278	4,929
- current accounts	1,009	1,699
-other	2,745	5,539
Total	**28,012**	**27,762**

Detail of "Due to banks"

(Table 6.1 B.I.)

(in millions of Euro)

	12/31/99	12/31/98
(a) Repurchase agreements	5,624	5,131
(b) Securities borrowed	102	32

Due to customers and securities issued (captions 20 and 30)

Funds obtained from customers, comprising deposits from customers and securities issued, are detailed below:

(in millions of Euro)

	12/31/99	12/31/98
Due to customers		
- current accounts	31,344	26,264
- repurchase agreements and securities borrowed	3,758	8,863
- savings deposits	4,752	3,773
- short-term payables relating to special management services carried out for the government	475	600
- other (*)	2,860	5,617
Securities issued		
- bonds	23,643	38,437
- certificates of deposit	9,090	12,059
- commercial paper	-	-
- bankers' drafts	380	277
- other securities	2,605	1,439
Total	**78,907**	**97,329**

(*) Essentially comprises short positions on securities taken as part of stockbroking activities.

Detail of "Due to customers"
(Table 6.2 B.I.)

(in millions of Euro)

	12/31/99	12/31/98
(a) Repurchase agreements	3,748	8,766
(b) Securities borrowed	10	97

No bonds convertible into own shares or into shares of other companies have been issued, nor securities and similar items or shares.

Public funds administered (caption 40)

Public funds administered, provided by the State and other public entities, are analyzed below:

(in millions of Euro)

	12/31/99	12/31/98
Funds provided by the State	10	14
Funds provided by regional public agencies	20	25
Other funds	20	30
Total	**50**	**69**
of which:		
funds with risk born by the government under Law 19 of 2/6/87	16	22

Other information relating to payables

Information regarding the distribution of deposits by geographical area, degree of liquidity and currency is reported in note (21).

(17) PROVISIONS

Provisions for termination indemnities (caption 70)

The following tables show changes in the reserve for termination indemnities during years 1999 and 1998.

(in millions of Euro)

	12/31/1999
Opening balance	**436**
(-) adjustment for the deconsolidation of Crediop and its subsidiaries	(5)
Final balance	**431**
Increases	
- provisions	41
- transfers	1
- other changes	-
Decreases	
- advances allowed under Law 297/82	20
- indemnities paid to employees leaving the Bank	14
- transfers	1
- other changes	-
Closing balance	**438**

(in millions of Euro)

	12/31/1998
Opening balance	**374**
(+) opening balance of ex IMI	50
Final balance	**424**
Increases	
- provisions	46
- transfers	-
- other changes	1
Decreases	
- advances allowed under Law 297/82	-
- indemnities paid to employees leaving the Bank	34
- transfers	-
- other changes	1
Closing balance	**436**

Provisions for risks and charges (caption 80)

Pensions and similar commitments (caption 80.a)

Changes in the reserve for pensions and similar commitments during the years 1999 and 1998.

(in millions of Euro)

	12/31/1999
Opening balance	**66**
(-) adjustment for the deconsolidation of Crediop and its subsidiaries	-
Final balance	**66**
Increases	
- provisions	1
- other	-
Decreases	
- utilisations	5
Closing balance	**62**

(in millions of Euro)

	12/31/1998
Opening balance	**6**
(+) opening balance of ex IMI	54
Final balance	**60**
Increases	
- provisions	1
- other	11
Decreases	
- utilisations	6
Closing balance	**66**

Taxation (caption 80.b)

Changes in the reserve for taxation during the year 1999 and 1998 (table 7.1 B.I.)

Changes in the reserve for taxation during the year 1999 and 1998 (table 7.1 B.I.) (in millions of Euro)

	Current tax liabilities	Deferred tax liabilities	Total
Opening balance - January 1, 1999	**979**	**341**	**1,320**
(+) adjustments for the deconsolidation of Crediop and its subsidiaries	(63)	(79)	(142)
Final balance	**916**	**262**	**1,178**
Increases			
- provisions for 1999 income taxes	650	74	724
- transfer from the reserve for deferred taxation	46	-	46
- other	6	14	20
Decreases			
- payment of 1999 income taxes	854	-	854
- transfer to current taxes	-	46	46
- other changes	5	34	39
Closing balance - December 31, 1999	**759**	**270**	**1,029**

(in millions of Euro)

	Total
Opening balance - January 1, 1998	**255**
(+) opening balance of ex IMI	197
(+) adjustments for the merger with IMI	225
Final balance	**677**
Increases	
- provisions for 1999 income taxes	
- transfer from the reserve for deferred taxation	1,040
- other	6
Decreases	
- payment of 1999 income taxes	396
- transfer to current taxes	-
- other changes	7
Closing balance - December 31, 1998	**1,320**

The reserve for taxation covers current income taxes as well as amounts that may be due under outstanding fiscal disputes.

More specifically, the reserve includes fiscal disputes pertaining to the Bank (Euro 47 million) and to Banca Fideuram (Euro 4 million).

The subsidiary Fideuram Vita (carried at equity), has a dispute outstanding with the tax authorities regarding the years from 1985 to 1990. Regarding the first three years, the company obtained a favourable ruling from the first level commission, but the rulings from the second and the third level courts were unfavourable. In the belief that it will be possible to overturn these rulings, the company has appealed to the High Court. Regarding the three subsequent years, the first level tax commission concurred with all of the company’s submissions; the fiscal authorities have appealed against this ruling. The verdict from the hearing before the tax commission in July 1999 is still not known, although the company is confident of a favourable outcome. Accordingly, no specific provisions have been made by the company with regard to these contingencies.

In calculating the reserve for taxes and duties, account has been taken of the incentives pursuant to the Ciampi Law (Law 461/98 and Legislative Decree 153/99) The application of the incentives has however been effected using prudential criteria to assess the amount of the benefit. Furthermore, as a result of the incentives, an average proportion inferior to that theoretically available has been used to calculate prepaid taxes concerning future years and lower prepaid taxes have therefore been required.

As required by CONSOB (27052 of April 7, 2000) Sanpaolo IMI S.p.A. announced that the incentives of the Ciampi Law have been suspended and noted that any net benefit not to be taken (approximately Euro 13 million as prudently calculated) is covered in the provision for taxes and duties for current and potential tax disputes.

In the event that the incentives are not available, the amount posted to the reserve for taxes and duties for current and potential tax disputes would be reduced to approximately Euro 34 million, in line with the risks involved.

Deferred tax assets and liabilities recorded in the consolidated financial statements relate to timing differences between the accounting and fiscal value of assets and liabilities accrued in 1999 and in prior years for which it is deemed likely that a tax liability will be incurred in the future (in the case of deferred tax liabilities) or which will most likely be recovered (in the case of deferred tax assets). Deferred taxation has been estimated by each Group company and it has also been estimated on preparation of the consolidated financial statement for the tax effect of those entries typical of the consolidation process. Different tax rates for each Group company have been applied to the tax effect caused by the timing differences.

The following tables about deferred tax liabilities and deferred tax assets are available only for the year 1999.

Detail of deferred tax liabilities

(in millions of Euro)

Deferred tax liabilities which have been charged to the statement of income:	73
- on the earnings subsidiary companies (*)	54
- other	19
Deferred tax liabilities charged to shareholders' equity:	197
- on Parent Bank reserves:	149
Reserve for general banking risks	*120*
Other reserves - Reserves ex Law 169/83	*4*
Other reserves - Reserves ex Legislative Decree 213/98	*25*
- on reserves of foreign subsidiaries	48
Total	**270**

(*) The item relates to the tax charge to be borne at the moment of distribution or realization of the earnings

Changes in deferred tax liabilities charged to the statement of income

(in millions of Euro)

Opening balance - January 1, 1999	**129**
(+) adjustments for the deconsolidation of Crediop and its subsidiaries	(79)
1. Final balance	**50**
2. Increases	
2.1 Deferred tax liabilities arising during the year	63
2.2 Other increases (1)	13
3. Decreases	
3.1 Deferred tax liabilities reversing during the year	42
3.2 Other decreases (2)	11
4. Closing balance - December 31, 1999	**73**

(1) Relates to the inclusion of Nuova Holding Subalipna S.p.a. in the scope of consolidation.

(2) Relates to the exclusion of Imigest Immobiliare from the scope of consolidation, following the real estate spin – off.

Changes in deferred tax liabilities charged to shareholders' equity

(in millions of Euro)

Opening balance - January 1, 1999	**212**
(+) adjustments for the deconsolidation of Crediop and its subsidiaries	-
1. Final balance	**212**
2. Increases	
2.1 Deferred tax liabilities arising during the year (1)	11
2.2 Other increases	1
3. Decreases	
3.1 Deferred tax liabilities reversing during the year (2)	4
3.2 Other decreases (3)	23
4. Closing balance - December 31, 1999	**197**

(1) Relates to the taxation of merger differences arising following the company reorganizations effected by the subsidiary Banque SanPaolo IMI

(2) Relates to the utilization of the reserve for deferred taxation relating to the reserve for general banking risks to cover losses recorded by the Bank during the year, which cannot be deducted for tax purposes.

(3) Relates to deferred tax liabilities on the portion of the reserve ex Law 169/83 pertaining to the Bank, which was reduced due to the real estate spin off.

Detail of deferred tax assets

(in millions of Euro)

Deferred tax assets credited to the statements of income	
- adjustments to the value of loans	386
- adjustments to the value of securities, equity investments and property	31
- provisions to reserves, accumulated depreciation and amortization	116
- other non-deductible items	18
- other	7
Total	**558**

Changes in deferred tax assets credited to the statement of income

(in millions of Euro)

Opening balance - January 1, 1999	**558**
(+) adjustments for the deconsolidation of Crediop and its subsidiaries	(28)
1. Final balance	**530**
2. Increases	
2.1 Deferred tax liabilities arising during the year	133
2.2 Other increases	-
3. Decreases	
3.1 Deferred tax liabilities reversing during the year	105
3.2 Other decreases	-
4. Closing balance - December 31,1999	**558**

Provisions for risks and charges - Other provisions (voce 80.c)

Analysis of caption 80.c "Provisions for risks and charges - Other provisions" (table 7.3 B.I.)

(Table 7.3 B.I.) (in millions of Euro)

	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance - January 1, 1999	**40**	**253**	**107**	**400**
(-) adjustment for the deconsolidation of Crediop and its subsis	-	(23)	(2)	(25)
Final balance	**40**	**230**	**105**	**375**
Increases				
- provisions (*)	1	64	24	89
- other	-	-	-	-
Decreases				
- revaluation of guarantees	1	-	-	1
- coverage of charges deriving from legal disputes and other	-	59	-	59
- payments of long-service bonuses	-	-	8	8
- other	-	4	-	4
Closing balance - December 31, 1999	**40**	**231**	**121**	**392**

(*) The provision for other personnel charges includes Euro 8 million for personnel leaving incentives booked to "extraordinary expenses".

(in millions of Euro)

	Guarantees and commitments	Other risks and charges	Other personnel charges	Total
Opening balance - January 1, 1998	**33**	**107**	**93**	**233**
(+) Opening balance of ex IMI	5	45	-	50
Final balance	**38**	**152**	**93**	**283**
Increases				
- provisions	18	107	18	143
- other	-	10	-	10
Decreases				
- revaluation of guarantees	-	-	-	-
- coverage of charges deriving from legal disputes and other	16	9	-	25
- payments of long-service bonuses	-	-	4	4
- other	-	7	-	7
Closing balance - December 31, 1998	**40**	**253**	**107**	**400**

Provisions for guarantees and commitments, totaling 40 million Euro for both the year 1999 and 1998, cover expected losses in respect to guarantees given and, more generally, the contingencies associated with the Group's guarantees and commitments.

Provisions for other risks and charges, totaling 231 million Euro for the year 1999 and 253 for 1998, include provisions made by the Bank totaling 147 million Euro in 1999 and 148 million Euro in 1998, to cover expected losses deriving from legal action, especially from repayments claimed by the receivers of bankrupt customers, as well as charges which might arise in connection with guarantees given by the Bank on the disposal of equity investments and from the Bank's commitment to the Interbank Deposit Guarantee Fund and other charges. The balance also comprises provisions made by the subsidiary Banque Sanpaolo (Euro 18 million in 1999 and Euro 19 million in 1998) and those subsidiaries who market financial products (Euro 54 million in 1999 and Euro 43 million in 1998); these provisions were made against operating risks that are typical for their sectors. Other provisions, involving minor balances, are reported in the accounts of other Group companies.

The provisions for other personnel charges, of Euro 121 million in 1999 and Euro 105 million in 1998, include:

- Euro 99 million in 1999 and Euro 93 million in 1998 relating to provisions made by the Bank, on the basis of independent actuarial appraisals, to cover its commitment to the independent supplementary pension fund due to unfunded pension liabilities;
- Euro 10 million in 1999 and Euro 7 million in 1998 provided to the technical reserves and designed to cover long-service bonuses to employees;
- Euro 8 million in 1999 relating to provisions for personnel leaving incentives, resolved during the year and due for implementation in the year 2000;
- Euro 3 million in 1999 and Euro 6 million in 1998 in relation to the provision made to cover potential contributions for the employees of the Banks and a subsidiary company;
- Euro 1 million in 1999 relating to likely costs to be incurred in connection with employees and the restructuring of the Bank’s Frankfurt and New York branches.

Reserve for possible loan losses (caption 90)

This caption reflects provisions made by certain subsidiaries to cover lending risks - including risks deriving from derivatives transactions; these risks are only potential, so the reserve is not set off against asset balances.

Changes in the reserve for possible loan losses during 1999 and 1998 are analyzed below:

(table 7.2 B.I.) (in millions of Euro)

	12/31/99
Opening balance	**19**
(-) adjustments for the deconsolidation of Crediop and its subsidiairies	-
A. Final balance	**19**
B. Increases	
B1. provisions	10
B2. other changes	-
C. Decreases	
C1. releases	-
C2. other changes	-
D. Closing balance	**29**

(in millions of Euro)

	12/31/98
Opening balance	**-**
(+) opening balance of ex IMI	566
(-) adjustments due to the merger of Sanpaolo Spa with IMI	(554)
A. Final balance	**12**
B. Increases	**9**
B1. provisions	6
B2. other changes	3
C. Decreases	**2**
C1. releases	1
C2. other changes	1
D. Closing balance	**19**

(18) CAPITAL, EQUITY RESERVES, RESERVE FOR GENERAL BANKING RISKS AND SUBORDINATED LIABILITIES

The Group interest in shareholders' equity is detailed below:

(in millions of Euro)

	12/31/99	12/31/98
Shareholders' equity		
- capital (caption 150)	3,926	4,345
- additional paid-in capital (caption 160)	-	-
- reserves (caption 170)		
- legal reserve	792	869
- reserve for own shares	357	5
- statutory reserves	-	-
- other reserves	1,672	2,121
- reserve for general banking risks (100)	361	359
- negative goodwill arising on consolidation (caption 120)	15	20
- negative goodwill arising on application of the equity method (130)	199	40
- revaluation reserves (caption 180)	-	-
- retained earnings (caption 190	-	-
- net income for the year (caption 200)	1,050	909
Group interest in shareholders' equity	8,372	8,668
Minority interests (caption 140)	539	394
Subordinated liabilities (caption 110)	1,524	1,511

Group interest in consolidated shareholders' equity

Capital equity reserves and net income (captions 150, 160, 170 and 180)

Capital, additional paid-in capital, the legal reserve, the statutory reserve and retained earnings (if any) reflect the amounts reported in the financial statements of the Bank; "other reserves" comprise the remaining reserves of the Bank changes during the year in the Group's interest in the shareholders' equity of consolidated companies and negative goodwill arising on first-time consolidation of companies forming part of the former IMI Group. The reserve for general banking risks comprises amounts reported by the Bank and by other companies consolidated line-by-line

Following translation of the share capital into Euro, as described in the introduction to these explanatory notes, the capital amounts to Euro 3,926,117,854.4, represented by 1,402,184,948 ordinary shares, all issued and fully paid, par value Euro 2.8 each.

The "Reserve for own shares" was established by Banca d'Intermediazione Mobiliare IMI S.p.A. in relation to the Bank's year-end stock of shares used in connection with dealing activities, essentially to hedge Milano Indice Borsa futures and options contracts. The reserve, formed using the portion of reserves specifically destined for this purpose, is offset by a matching balance in asset caption 140 "Own shares".

Effects of the spin-off on shareholders' equity

The real estate of the spin-off carried out during the year reduced the book value of shareholders' equity by Euro 701 million, as follows:

- the share capital of the Bank decreased by Euro 413 million;
- the legal reserve of the Bank decreased by Euro 83 million;
- other reserves of the Bank decreased by Euro 177 million, of which Euro 107 million charged to the merger surplus, Euro 61 million to the reserve ex Law 169/83 and Euro 9 million to the reserve ex Law 218/90;
- other reserves of Imigest Immobiliare S.p.A. and its subsidiaries Tradital S.p.A. and Immobiliare Italia Gestioni decreased by Euro 28 million. These companies were consolidated line-by-line and form part of the group of companies being partially spun-off.

Reserve for general banking risks (caption 100)

The reserve for general banking risks reflects the reserve shown in the financial statements of the Bank, Euro 336 million in 1999 and Euro 336 million in 1998, and the reserves set up by certain subsidiary companies, Euro 24 million in 1999 and Euro 100 million in 1998.

Positive goodwill arising on consolidation (asset caption 90)

(in millions of Euro)

	12/31/99	12/31/98
Sanpaolo Fondi S.p.A.	5	8
Finconsumo S.p.A.	2	3
Total	**7**	**11**

Negative goodwill arising on consolidation (liability caption 120)

(in millions of Euro)

	12/31/99	12/31/98
Sanpaolo Bank SA	9	9
Crediop Overseas Bank Ltd	-	5
Sanpaolo Invest Sim SpA	4	4
Intersim SpA	1	1
Sanpaolo Gestion International SA	1	1
Total	**15**	**20**

Negative goodwill arising on consolidation, Euro 15 and Euro 20 million, as of December 31, 1999 and 1998 respectively, has been determined according to the accounting principles described in Part A of these Notes; it is unchanged from the balance at the end of the prior year.

As stated in the introduction to these notes, negative goodwill arising on first time consolidation of companies belonging to the former IMI Group have been booked to "other reserves" for Euro 933 million and to the "reserve for general banking risks" for Euro 4 million, after offsetting the positive differences arising from the merger for Euro 75 million.

Negative goodwill arising on application of the equity method (liability caption 130)

(in millions of Euro)

	12/31/99	12/31/98
Negative goodwill arising on first-time consolidation	78	73
Subsequent adjustments (*)	121	(33)
Total	**199**	**40**

(*) As of December 31, 1999, these include the earnings capitalized by companies operating in the insurance sector, for a total of Euro 110 million.

The decrease is due to the pro-rata disposal of Crediop Overseas, a subsidiary of Crediop S.p.A.. Negative goodwill arising on first-time consolidation also includes differences originating from the merger with IMI S.p.A., Euro 75 million.

Positive goodwill arising on application of the equity method (asset caption 100)

(in millions of Euro)

	12/31/99	12/31/98
Sanpaolo Vita SpA	24	48
Azimut S.p.A.	24	-
Bafin S.p.A.	3	-
Total	**51**	**48**

Deferred taxation on reserves in suspense for tax purposes

The deferred taxation that refers to shareholders' equity items was booked to the following captions:

Reserve for General Banking Risks;
Reserve ex Law 169/83;
Reserve ex D.Lgs. 213/98;
Reserves of foreign subsidiaries.

As regards the Reserve for general banking risks, deferred taxes have been recorded in connection with the probability of loan losses, which given the fiscal nature of the reserve, would not be immediately deductible. This reserve is an equity item that would be taxable however it is used.

Deferred taxes have been charged on the Reserve ex Law 169/83 because of the various circumstances in which it can be taxed. This reserve is unrestricted for statutory purposes and would be taxed not only in the event of distribution, but also if used in certain other ways.

Deferred taxes have also been booked for the Reserve ex D.Lgs. 213/98. At the end of '98, deferred taxes were calculated on the net exchange differences that arose on translation of the equity investments expressed in Euro-participating currencies.

The consolidated financial statements also include the latent tax liability on the reserves of foreign subsidiaries which, if distributed, would result in a tax liability for the company holding the investment.

For completeness sake, we would also point out that the other items in the Bank's equity that are in suspense for tax purposes, namely the Share Capital (Euro 586 million), the Legal Reserve (Euro 268 million), the Reserve ex Law 218/90 (Euro 80 million) and the Reserve ex D.Lgs. 124/93 (Euro 1 million), are taxable solely if distributed. Given the extent to which these items are restricted, no deferred taxes have been calculated on them, as the events that might give rise to them being taxed are not expected to take place in the foreseeable future. No deferred taxation has been calculated on the reserves of Group companies which are in suspense for tax purposes because the events that might give rise to them being taxed are not currently deemed probable.

Subordinated liabilities (caption 110)

	Book value as of 12/31/99 (millions of Euro)	Original currency (millions)	Interest rate	Issue date	Maturity date	Book value as of 12/31/98 (millions of Euro)
Notes in Luxembourg francs	25	1,000	7.75%	05/26/93	05/26/00	25
Notes in Luxembourg francs	25	1,000	7.63%	07/09/93	07/09/01	25
Notes in Luxembourg francs	25	1,000	9%	02/10/93	02/10/00	25
Notes in Luxembourg francs	-	600	8.00%	05/14/93	05/14/99	15
Notes in US dollars	165	165	floating	07/12/93	07/30/03	127
Notes in US dollars	79	79	floating	09/24/93	09/24/03	76
Notes in US dollars	94	94	floating	11/30/93	11/30/05	81
Notes in US dollars	32	32	floating	08/25/95	08/25/00	68
Notes in Canadian dollars	104	151	floating	11/10/93	11/10/03	84
Notes in Italian lire	356	690,000	10.40%	06/30/94	06/30/04	362
Notes in Eurolire	102	198,000	floating	07/06/95	07/06/00	103
Notes in Eurolire	27	52,000	floating	12/30/96	01/20/02	27
Subordinated loan in Italian lire	51	100,000	5.10%	06/01/98	06/01/03	65
Subordinated loan in Italian lire	124	240,000	5.30%	01/01/98	01/01/03	154
Subordinated loan in Italian lire	115	224,000	floating	02/01/98	02/01/03	145
Subordinated loan in Euro	200	200	floating	10/01/99	10/01/09	129
Total	**1,524**					**1,511**

Subordinated liabilities not included in the calculation of regulatory capital amount to Euro 156 million in 1999 and Euro 111 million in 1998.

Contractually, subordinated loans may not be redeemed prior to maturity, nor converted into capital or any other type of liability. In particular, such contracts lay down that:

– early redemption can only take place on the issuer's initiative and with Bank of Italy authorization;

- the loan period must not be less than five years; if no maturity is stated, the contract must state that a notice period of at least five years has to be given;
- in the event that the issuer is put into liquidation, these subordinated loans can only be reimbursed once all other creditors, not similarly subordinated, have been satisfied.

Other information on subordinated liabilities

See Note 21 for information regarding the distribution of subordinated liabilities by geographical area, currency and degree of liquidity.

Minority interests (caption 140)

As of December 31, 1999, minority interest totalling Euro 539 million essentially relates to the portion attributable to minority shareholders of the Banca Fideuram and Nuova Holding Subalpina sub-groups.

As of December 31, 1998 it was Euro 394 million, and it was essentially relate to the portion attributable to minority shareholders of the Banca Fideuram and Crediop sub-groups.

Other information

In accordance with Bank of Italy instructions on disclosure, the composition of regulatory capital and an analysis of the prudent supervisory requirements are given in the table below:

(in millions of Euro)

Category/value	12/31/1999	12/31/1998
A. Regulatory capital		
A.1 Tier 1 capital	7,505	8,045
A.2 Tier 2 capital	1,255	1,277
A.3 Items to be deducted	(737)	(116)
A.4 Regulatory capital	8,023	9,206
B. Minimum regulatory requirements		
B.1 Lending risk	5,667	5,822
B.2 Market risk	531	760
including:		
- risks on dealing portfolio	505	719
- exchange risks	26	41
B.3 Other minimum requirements	40	56
B.4 Total minimum requirements	6,238	6,638
C. Risk assets and capital-adequacy ratios		
C.1 Risk-weighted assets	77,975	82,975
C.2 Tier 1 capital/risk weighted assets	9.6%	9.7%
C.3 Regulatory capital/risk weighted assets	10.3%	11.1%

A statement of changes in the Group's share of consolidated shareholders’ equity is attached to these notes, together with a reconciliation of the Bank’s 1999 net income and shareholders’ equity and the corresponding consolidated amounts.

(19) OTHER LIABILITIES

Other liabilities (caption 50)

Analysis of caption 50 "Other liabilities"
(Table 9.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Valuation of derivatives on interest rates and Stockmarket index prices	9,676	6,896
Items relating to securities transactions	23	1,212
Amounts available for third parties	1,134	1,164
Unprocessed transactions	1,462	2,012
Transactions involving foreign branches	324	742
Amounts in transit with branches	584	591
Non-liquid balances from portfolio transactions	334	229
Amounts due to employees	300	257
Due to the tax authorities	276	192
Premiums collected on options sold	318	257
Amounts payable due to settlement value date	127	-
Deposits guaranteeing agricultural and construction loans	35	54
Tax payments accounts	107	61
Other	1,015	1,043
Total	**15,715**	**14,710**

Accrued expenses and deferred income (caption 60)

Analysis of caption 60 "Accrued expenses and deferred income"
(Table 9.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Accrued expenses		
- charges on derivative contracts	3,266	3,096
- interest on securities issued	1,188	1,721
- interest on amounts due to banks	157	133
- interest on amounts due to customers	119	104
- payroll and other operating costs	40	97
- other	57	84
Deferred income		
- interest on discounted notes	49	70
- income from derivative contracts	114	132
- other	164	169
Total	**5,154**	**5,606**

(20) GUARANTEES AND COMMITMENTS

Guarantees given in favor of third parties comprise:

Analysis of caption 10 "Guarantees given"
(Table 10.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Commercial guarantees	9,437	9,298
(b) Financial guarantees	1,416	1,541
(c) Assets lodged in guarantee	192	185
Total	**11,045**	**11,024**

Commitments outstanding at year-end are as follows:

Analysis of caption 20 "Commitments"
(Table 10.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Commitments to grant finance (certain to be called on)	2,287	3,616
(b) Commitments to grant finance (not certain to be called on)	15,741	16,368
Total	**18,028**	**19,984**

Assets lodged to guarantee the Group's liabilities

(Table 10.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Portfolio securities lodged with third parties to guarantee repurchase agreements	9,372	13,897
Securities lodged with central banks to guarantee advances	205	1,262
Securities lodged with the Bank of Italy to guarantee bankers' drafts	70	72
Securities lodged with the clearing-house for transactions on the derivatives market	58	174
Total	**9,705**	**15,405**

Unused lines of credit

The Group has unused lines of credit, excluding operating limits, as detailed below:

(Table 10.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Central banks	41	75
(b) Other banks	641	933
Total	**682**	**1,008**

Forward transactions

Forward transactions, excluding dealing transactions on behalf of third parties, are detailed below:

(table 10.5 B.I.)

12/31/99	Hedging	Dealing (*)	Other	Total
1. Purchase/sale of				
1.1 securities				
- purchases	-	729	-	729
- sales	-	871	-	871
1.2 currency				-
- currency against currency	3,942	615	-	4,557
- purchases against Euro	7,536	2,040	-	9,576
- sales against Euro	5,169	2,688	-	7,857
2. Deposits and loans				-
- to be disbursed	1,010	27	397	1,434
- to be received	18	626	506	1,150
3. Derivative contracts				
3.1 with exchange of capital				
(a) securities				
- purchases	-	3,966	-	3,966
- sales	421	4,233	-	4,654
(b) currency				-
- currency against currency	875	561	-	1,436
- purchases against Euro	3,218	2,069	-	5,287
- sales against Euro	866	2,080	-	2,946
(c) other instruments				-
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital				-
(a) currency				-
- currency against currency	223	-	-	223
- purchases against Euro	329	50	-	379
- sales against Euro	4	2	-	6
(b) other instruments				-
- purchases	11,207	101,687	-	112,894
- sales	11,700	100,421	2,839	114,960
Total	**46,518**	**222,665**	**3,742**	**272,925**

(*) Including derivative contracts hedging the dealing portfolio.

(in millions of Euro)

12/31/98	Hedging	Dealing (*)	Other	Total
1. Purchase/sale of				
1.1 securities				
- purchases	-	1,178	-	1,178
- sales	-	959	57	1,016
1.2 currency	-	-	-	-
- currency against currency	10,442	1,851	282	12,575
- purchases against Euro	12,395	1,164	131	13,690
- sales against Euro	14,082	909	120	15,111
2. Deposits and loans	-	-	-	-
- to be disbursed	-	245	2,272	2,517
- to be received	-	230	852	1,082
3. Derivative contracts	-	-	-	-
3.1 with exchange of capital	-	-	-	-
(a) securities	-	-	-	-
- purchases	190	7,541	-	7,731
- sales	24	8,264	-	8,288
(b) currency	-	-	-	-
- currency against currency	1,940	1,574	-	3,514
- purchases against Euro	8,088	3,461	-	11,549
- sales against Euro	984	3,066	-	4,050
(c) other instruments	-	-	-	-
- purchases	-	-	-	-
- sales	-	-	-	-
3.2 without exchange of capital	-	-	-	-
(a) currency	-	-	-	-
- currency against currency	-	38	-	38
- purchases against Euro	831	416	-	1,247
- sales against Euro	33	287	-	320
(b) other instruments	-	-	-	-
- purchases	21,998	108,098	2,597	132,693
- sales	18,470	112,870	4,397	135,737
Total	**89,477**	**252,151**	**10,708**	**352,336**

Hedging contracts, entered into as part of credit intermediation activities, show an unrecognized net loss of Euro 255 and 558 million, respectively in 1999 and 1998. In compliance with the accounting policies, this amount has not been recorded in the financial statements since the purpose of the derivatives contracts in question is to hedge interest and exchange rate risks with regard to funding activities (particularly deposit-taking transactions made via the issue of bonds with a structured yield) and / or lending activities. The above-mentioned contracts are in fact recorded on a consistent basis with those adopted for hedging transactions, with the identification of accruals in the financial statements. Had the assets and liabilities being hedged been valued in the same way, this would have led to a gain which would have offset the above loss.

Other information relating to guarantees

The classification of guarantees given by category of counterparty is provided in note (21) of these notes, while forward transactions related to dealing on behalf of third parties are described in note (22).

(21) CONCENTRATION AND DISTRIBUTION OF ASSETS AND LIABILITIES

Significant exposures

The table below shows the positions defined as "significant exposures" by the Bank of Italy in compliance with EC guidelines. For this purpose, the positions are considered significant if the overall exposure to a single client (or group of companies) on a consolidated basis is equal to or greater than 10% of the Bank's regulatory capital. Exposure is calculated using a system of weighting positions exposed to lending risk, which takes into account the nature of the counterparty and the guarantees received.

(Table 11.1 B.I.)

	12/31/1999	12/31/98
(a) Amount (in millions of Euro)	10,674	11,469
(b) Number	5	4

Distribution of loans to customers, by category of borrower

Loans to customers are distributed as follows:

(Table 11.2 B.I.) (in millions of Euro)

	12/31/1999	12/31/1998
(a) Governments	4,471	14,254
(b) Other public entities	5,469	7,642
(c) Non-financial businesses	40,762	41,881
(d) Financial institutions	6,751	9,280
(e) Family businesses	2,498	2,670
(f) Other operators	13,223	11,162
Total	**73,174**	**86,889**

Distribution of loans to resident non-financial and family businesses

The distribution of loans to non-financial and family businesses resident in Italy is detailed below, by industry:

(Table 11.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Other services for sale	5,490	5,830
(b) Construction and public works	3,711	5,013
(c) Commerce, salvage and repairs	5,412	4,555
(d) Energy	2,847	3,822
(e) Materials and supply of electricity	2,840	1,669
(f) Other sectors	15,691	17,956
Total	**35,991**	**38,845**

Distribution of guarantees given, by category of counterparty

Guarantees given by the Group are classified by category of counterparty as follows:

(Table 11.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Governments	20	-
(b) Other public entities	13	258
(c) Banks	795	613
(d) Non-financial businesses	8,860	7,161
(e) Financial institutions	971	2,653
(f) Family businesses	95	83
(g) Other operators	291	255
Total	**11,045**	**11,023**

Geographical distribution of assets and liabilities

The geographical distribution of the Group's assets and liabilities is detailed below, by reference to the countries of residence of the counterparties concerned:

(Table 11.5 B.I.) (in millions of Euro)

	12/31/99				12/31/98			
	Italy	**Other EU countries**	**Other countries**	**Total**	**Italy**	**Other EU countries**	**Other countries**	**Total**
1. Assets								
1.1 due from banks	10,131	8,772	3,241	22,144	10,036	10,745	2,311	23,092
1.2 loans to customers	60,999	7,679	4,496	73,174	76,611	6,799	3,479	86,889
1.3 securities	12,608	4,110	1,662	18,380	20,670	3,476	1,577	25,723
Total	**83,738**	**20,561**	**9,399**	**113,698**	**107,317**	**21,020**	**7,367**	**135,704**
2. Liabilities								
2.1 due to banks	9,722	7,173	11,117	28,012	7,156	11,369	9,238	27,763
2.2 due to customers	31,958	8,283	2,948	43,189	36,529	6,423	2,165	45,117
2.3 securities issued	25,081	6,459	4,178	35,718	38,913	7,363	5,936	52,212
2.4 other accounts	527	1,047	-	1,574	563	1,017	-	1,580
Total	**67,288**	**22,962**	**18,243**	**108,493**	**83,161**	**26,172**	**17,339**	**126,672**
3. Guarantees and commitments	12,974	7,304	8,795	29,073	18,848	5,152	7,008	31,008

Maturities of assets and liabilities

The residual maturities of assets and liabilities for year 1999 are detailed in the following table:

(Table 11.6 B.I.) (in millions of Euro)

	Specified duration							Unspecified	Total
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
				Fixed rate	Indexed rate	Fixed rate	Indexed rate		
1. Assets									
1.1 Treasury bonds eligible for refinancing	693	203	312	601	823	502	198	-	3,332
1.2 due from banks	5,513	12,921	2,417	280	226	95	69	623	22,144
1.3 loans to customers	12,405	12,252	10,070	9,436	13,290	6,015	7,751	1,955	73,174
1.4 bonds and other debt securities	504	1,518	1,907	2,707	4,422	1,480	1,067	-	13,605
1.5 off-balance sheet transactions	4,319	67,336	42,237	58,862	8,752	31,789	1,687	-	214,982
Total assets	**23,434**	**94,230**	**56,943**	**71,886**	**27,513**	**39,881**	**10,772**	**2,578**	**327,237**
2. Liabilities									
2.1 due to banks	4,695	15,152	3,657	1,141	1,793	645	929	-	28,012
2.2 due to customers	33,024	6,583	1,042	531	838	954	217	-	43,189
2.3 securities issued:									
- bonds	345	740	3,158	5,920	6,773	3,730	2,977	-	23,643
- certificates of deposit	196	4,049	3,672	1,064	94	15	-	-	9,090
- other securities	393	2,572	20	-	-	-	-	-	2,985
2.4 subordinated liabilities	-	90	345	424	435	30	200	-	1,524
2.5 off-balance sheet transactions	4,490	65,489	41,736	60,269	6,887	32,326	1,681	-	212,878
Total liabilities	**43,143**	**94,675**	**53,630**	**69,349**	**16,820**	**37,700**	**6,004**	**-**	**321,321**

The residual maturities of assets and liabilities for year 1998 are detailed in the following table:

(in millions of Euro)

	Specified duration							Unspecified	Total
	On demand	Up to 3 months	Between 3 and 12 months	Between 1 and 5 years		Beyond 5 years			
				Fixed rate	Indexed rate	Fixed rate	Indexed rate		
1. Assets									
1.1 Treasury bonds eligible for refinancing	104	860	1,490	1,320	1,420	580	176	-	5,950
1.2 due from banks	4,273	15,168	1,143	1,215	389	117	194	594	23,093
1.3 loans to customers	11,520	15,279	9,330	12,825	16,920	8,033	10,002	2,980	86,889
1.4 bonds and other debt securities	63	1,077	6,236	3,610	2,545	2,783	2,258	-	18,572
1.5 off-balance sheet transactions	23,903	64,638	62,512	36,461	11,117	15,656	2,026	-	216,313
Total assets	**39,863**	**97,022**	**80,711**	**55,431**	**32,391**	**27,169**	**14,656**	**3,574**	**350,817**
2. Liabilities	-	-	-	-	-	-	-	-	-
2.1 due to banks	4,889	13,178	3,841	1,425	1,594	1,040	1,796	-	27,763
2.2 due to customers	28,312	12,431	913	1,010	863	699	889	-	45,117
2.3 securities issued:	-	-	-	-	-	-	-	-	-
- bonds	707	844	3,824	8,412	13,643	6,085	4,922	-	38,437
- certificates of deposit	123	3,760	4,400	2,136	1,630	2	9	-	12,060
- other securities	405	1,256	54	-	-	-	-	-	1,715
2.4 subordinated liabilities	-	96	105	261	605	362	81	-	1,510
2.5 off-balance sheet transactions	24,306	61,899	60,755	32,484	17,400	16,793	1,393	-	215,030
Total liabilities	**58,742**	**93,464**	**73,892**	**45,728**	**35,735**	**24,981**	**9,090**	**-**	**341,632**

Assets and liabilities denominated in foreign currencies

The Group's assets and liabilities denominated in foreign currencies are detailed below:

(Table 11.7 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Assets		
1. due from banks	6,453	7,566
2. loans to customers	7,956	13,386
3. securities	3,196	6,115
4. equity investments	125	216
5. other accounts	51	96
Total assets	**17,781**	**27,379**
(b) Liabilities		
1. due to banks	8,949	13,920
2. due to customers	5,626	8,121
3. securities issued	7,288	10,701
4. other accounts	474	526
Total liabilities	**22,337**	**33,268**

Figures as of December 31, 1998, reported for comparison purposes, relate to all transactions made in currencies other than the Lire. These include asset and liability balances pertaining to currencies that are part of the Euro-zone for Euro 23,196 million and Euro 22,306 million respectively.

Taking into consideration the effects of currency swap transactions for specific and generic hedging of transactions in foreign currency, the currency short position shown above is substantially offset.

(22) ADMINISTRATION AND DEALING ON BEHALF OF THIRD PARTIES

Dealing in securities

Purchases and sales of securities on behalf of third parties during the year are summarized below:

(Table 12.1 B.I.) (in millions of Euro)

	12/31/1999	12/31/1998
(a) Purchases		
1. settled	42,964	35,342
2. not settled	163	75
Total purchases	**43,127**	**35,417**
(b) Sales		
1. settled	32,641	33,331
2. not settled	34	101
Total sales	**32,675**	**33,432**

Portfolio management

The total market value of portfolios managed on behalf of customers is detailed below:

(Table 12.2 B.I.) (in millions of Euro)

	12/31/1999	12/31/1998
Asset management (*)	23,953	85,517

(*) For 1999, pursuant to specific Bank of Italy instructions the information refers solely to personalized management of customers' assets, excluding Group mutual funds, Euro 76,019 million, and technical reserves of insurance subsidiaries for Euro 10,500 million.

Custody and administration of securities

The nominal value of securities held in custody and for administration, including those received as guarantees, is detailed bellow:

(Table 12.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98
(a) Third-party securities held on deposit	209,672	181,268
(b) Third-party securities deposited with third parties	128,231	115,947
(c) Portfolio securities deposited with third parties (a)	14,087	3,972

(a) Excluding securities deposited with third parties to secure repurchase agreements which, as required, are already included in Table 10.3 B.I.- Assets lodged to guarantee the Group's liabilities.

Collection of receivables on behalf of third parties

The Bank has received instructions to collect the receivables of third parties as part of its portfolio transactions. The nominal value of such receivables is Euro 7,814 million and Euro 8,167 million for 1999 and 1998 respectively.

The notes portfolio has been reclassified on the basis of the related settlement dates, by recording the following adjustments:

(Table 12.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98
a) Debit adjustments		
1. current accounts	690	1,019
2. central portfolio	97	316
3. cash	-	-
4. other accounts	-	-
b) Credit adjustments		
1. current accounts	97	316
2. transferors of notes and documents	693	1,021
3. other accounts	-	-

Other transactions

Fund for applied research

Sanpaolo IMI continues to perform the role of co-ordinator for the Fund for Applied Research on behalf of the Ministry for Universities and Scientific and Technological Research. Now, in association with the same Ministry, it has also started to handle applications for financing under Law 488/1992. This entails evaluating and supervising the implementation of research and industrial development projects and training programmes for researchers from a technical and economic point of view, as well as monitoring research companies formed with government participation.

In 1999, 864 (418 in 1998) applications were received to finance investments worth Euro 2,229 million (Euro 886 million in 1998). The substantial increase over the prior year is due to the significant proportion of applications received by Sanpaolo IMI under "Law 488 for Research" (this is approximately 50% of total applications, the other 50% being split over the other 9 banks authorised to perform this activity). The increase represents the rise in investments reported by the research and development sector in the second half of the year. 460 preliminary inquiries were carried out in 1999 and 427 in 1998. The contracts drawn up were 376 and 277 respectively. In 1999 assisted loans amounting to Euro 374 million (Euro 294 million in 1998) were drawn on public funds and Euro 143 million (Euro 128 million in 1998) were drawn on the Bank's funds, taking advantage of interest subsidies provided by the Government under Law 346/1988.

Management activities carried out on behalf of the Ministry were recompensed with commission totalling Euro 7 million both in 1999 and 1998.

In January 2000, the Ministry for Universities and Scientific and Technological Research began managing the Fund for Applied Research directly and has empowered the ten banks, which were already authorised to operate in depressed areas of the country (pursuant to Law 488/1992), to participate in the new activity of the Fund. Sanpaolo IMI has been assigned the supervision of all outstanding projects.

Guarantee Fund for small and medium-sized enterprises in Southern Italy (Law 341/95)

By the Convention dated December 21, 1995 between the Italian Treasury and the Bank, as approved and activated by Decree of the Director-General of the Treasury dated January 5, 1996, Sanpaolo IMI has been granted the concession to this Fund established under Law 341/95.

The purpose of Law 341/95 is to promote rationalization of the financial situation of small and medium-sized enterprises in Southern Italy, as defined by EU parameters. This involves measures of various types, from interest-relief grants on financing designed to convert short-term bank borrowing into long-term loans, to the granting of supplementary guarantees on participating loans, for the purchase of equity investments and for the debt consolidation described above.

As of December 31, 1999, 4,501 requests had been received for a total of Euro 2,494 million, broken down as follows:

- Euro 1,637 million for the consolidation of short term indebtedness;
- Euro 651 million for participating loans;
- Euro 206 million for the acquisition of equity investments.

3,962 requests for loans totalling Euro 1,453 million have been processed, of which 3,814 have been approved. In light of the operations processed to date, the overall amount committed by the Fund totals Euro 906 million, including Euro 711 million relating to guarantees given and Euro 113 million for grants to be disbursed.

Management activities carried out on behalf of the Treasury were recompensed with commission totalling Euro 1.5 million.

On the contrary, as of December 31, 1998, 4,096 requests with a total value of Euro 1508 million had been received, all in relation to the consolidation of short-term debt. In addition, 3,640 requests for loans amounting to Euro 1,321 million had been processed, of which 3,378 had been approved. In light of the operations processed to December 31, 1998, the overall amount committed by the Fund totalled Euro 695 million, including Euro 582 million relating to guarantees given and Euro 113 million for grants to be disbursed.

In 1998 management activities carried out on behalf of the Treasury were recompensed with commission totalling Euro 1.2 million.

Third-party portion of syndicated loans

The portion of syndicated loans arranged by the Bank for third parties without a representation mandate totalled Euro 857 million in 1999 (Euro 1,396 million in 1998).

(23) INTEREST

Interest income and similar revenues (caption 10)

Analysis of caption 10 "interest income and similar revenues"

(Table 1.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
(a) On amounts due from banks	715	1,443	1,559
including			
- deposits with central banks	*24*	*101*	*123*
(b) On loans to customers	4,324	6,810	5,767
including			
- loans using public funds	-	-	-
(c) On debt securities	915	1,661	1,553
(d) Other interest income	12	67	8
(e) Net differential on hedging transactions	-	-	-
Total	**5,966**	**9,981**	**8,887**

Detail of caption 10 "interest income and similar revenues"

(Table 1.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
a) On assets denominated in foreign currency	870	2,652	1,889

"Interest income and similar revenue" on assets denominated in foreign currency relates to transactions denominated in currencies not included in the Euro-zone. The figures for 1998 and 1997 relate to transactions not denominated in Italian Lira.

Interest expense and similar charges (caption 20)

Analysis of caption 20 "interest expense and similar charges"

(Table 1.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
(a) On amounts due to banks	992	1,909	1,497
(b) On amounts due to customers	892	1,577	1,754
(c) On securities issued	1,834	3,565	3,219
including:			
– certificates of deposit	*480*	912	1,180
(d) On public funds administered	-	-	-
(e) On subordinated liabilities	81	111	151
(f) Net differential on hedging transactions (*)	135	168	132
Total	**3,934**	**7,330**	**6,753**

(*) This balance represents the net effects of hedging derivative differentials.

Detail of caption 20 "interest expense and similar charge" (table 1.4 B.I.)

(Table 1.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
a) On liabilities denominated in foreign currency	839	2,546	2,718

"Interest expense and similar charges" on liabilities denominated in foreign currency relates to transactions denominated in currencies not included in the Euro-zone. The figures for 1998 and 1997 relate to transactions not denominated in Italian Lira.

(24) COMMISSION

Commission income (caption 40)

Analysis of caption 40 "Commission income"

(Table 1.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
(a) Guarantees given	44	47	39
(b) Collection and payment services	177	182	140
(c) Management, dealing and advisory services			
1. dealing in securities	106	107	53
2. dealing in currency	31	30	28
3. asset management	123	72	48
4. custody and administration of securities	39	29	20
5. placement of securities	199	175	143
6. advisoy services	36	18	1
7. "door-to-door" sales of securities and financial		135	
products and services	108	114	46
8. acceptance of instructions	110		45
9. management of mutual funds	1,107	838	219
(d) Tax collection services	32	31	28
(e) Other services	475	451	304
Total	**2,587**	**2,229**	**1,114**

Commission expense (caption 50)

Analysis of caption 50 "Commission expense"

(Table 2.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
(a) Collection and payment services	50	56	46
(b) Management and dealing services			
1. dealing in securities	42	35	15
2. dealing in currency	1	2	4
3. portfolio management	-	1	-
4. custody and administration of securities	16	9	4
5. placement of securities	1	6	1
6. "door-to-door" sales of securities and financial	369		
products and services		318	78
7. management of mutual fund	18	8	-
(c) Other services	33	44	33
Total	**530**	**479**	**181**

(25) PROFITS (LOSSES) ON FINANCIAL TRANSACTIONS

Profits (losses) on financial transactions (caption 60)

Profits and losses comprise, for years 1999, 1998 and 1997:

Analysis of caption 60 "Profits (losses) on financial transactions"

(Table 3.1 B.I.) (in millions of Euro)

12/31/99	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	402	-	4,217	4,619
A2. Writedowns	(461)	-	(4,175)	(4,636)
B. Other profits and losses	(77)	5	192	120
Total	**(136)**	**5**	**234**	**103**
of which:				
1. on government securities	(204)			
2. on other debt securities	65			
3. on equities	284			
4. on security derivatives	(281)			

(in millions of Euro)

12/31/98	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	124	-	1,358	1,482
A2. Writedowns	(63)	-	(1,360)	(1,423)
B. Other profits and losses	58	28	61	147
Total	**119**	**28**	**59**	**206**
of which:				
1. on government securities	103			
2. on other debt securities	(25)			
3. on equities	70			
4. on security derivatives	(29)			

(in millions of Euro)

12/31/97	Security transactions	Currency transactions	Other transactions	Total
A1. Revaluations	1	-	46	47
A2. Writedowns	(13)	-	(7)	(20)
B. Other profits and losses	132	50	(32)	150
Total	**120**	**50**	**7**	**177**
of which:				
1. on government securities	(141)	-	-	-
2. on other debt securities	62	-	-	-
3. on equities	279	-	-	-
4. on security derivatives	(79)	-	-	-

(26) ADMINISTRATIVE COSTS

The following table sets out the detail of the payroll costs.

(in millions of Euro)

	12/31/99	12/31/98	12/31/97
Wages and salary	1,097	1,103	1,008
Social security charges	365	368	406
Termination indemnities	69	70	63
Pension and similar commitments	3	3	1
Total	**1,534**	**1,544**	**1,478**

The following table sets out the average number of employees by category

(Table 4.1 B.I.)

	12/31/99	12/31/98	12/31/97
(a) Managers	338	352	239
(b) Officials	4,388	4,530	4,171
(c) Other employees	19,490	19,963	18,764
Total	**24,216**	**24,845**	**23,174**

Other administrative costs (caption 80b)

(in millions of Euro)

	12/31/99	12/31/98	12/31/97
Rental of premises	88	83	71
Maintenance of operating assets	41	41	42
Software maintenance and upgrades	83	68	34
Postage and telegraph charges	38	38	31
Consultancy services	84	70	26
Data transmission charges	28	32	23
Energy	26	29	22
Advertising and entertainment	24	30	24
Telephone	32	38	24
Security services	24	25	20
Equipment leasing charges	14	20	19
Insurance premiums - banks and customers	11	18	18
Legal and judiciary expenses	24	24	17
Cleaning of premises	20	20	15
Office supplies	16	18	16
External data processing	25	30	13
Maintenance of properties owned by the Bank	18	16	12
Transport and counting of valuables	11	12	11
Databank access charges	16	16	12
Courier and transport services	10	11	8
Investigation/commercial information costs	11	11	7
Maintenance of leasehold premises	7	8	7
Contributions and membership fees to trades unions and business associations	6	7	4
Contribution to the Interbank Guarantee Fund	-	6	-
Other expenses for personnel training, traveling and assignments	37	37	-
Other expenses	69	72	37
Total	763	780	513
Indirect duties and taxes			
- stamp duties	120	119	107
- non-recoverable VAT on purchases	11	3	85
- taxes on stock exchange contracts	1	7	16
- local property taxes	10	12	10
- tax amnesty charge (Pres. Decree 601/73)	13	14	9
- other	14	17	11
Total	169	172	238
Total other administration costs	**932**	**952**	**751**

Administrative costs include, in 1999, Euro 4 million of costs connected with the "Euro Project" charged directly to the statement of income. Total costs incurred during the year for the "Euro Project" also include Euro 5 million pertaining to the amortization of capitalized costs, booked under "Adjustments to intangible fixed assets".

(27) ADJUSTMENTS, WRITEBACKS AND PROVISIONS

Adjustments and provisions, reported in captions 90, 100, 120, 140 and 150 of the consolidated statement of income, and writebacks, reported in captions 130 and 160, are detailed below:

Adjustments to intangible and tangible fixed assets (caption 90)

(in millions of Euro)

	12/31/99	12/31/98	12/31/97
Adjustments to intangible fixed assets			
- amortization of start-up and capital increase expenses	1	2	1
- amortization of goodwill	18	18	1
- amortization of merger differences	37	36	37
- amortization of software costs	47	39	18
- amortization of other deferred charges	29	25	19
- amortization of goodwill arising on consolidation	4	6	5
- amortization of goodwill arising on application of the equity method	25	32	34
Adjustments to tangible fixed assets			
- depreciation of property	59	67	56
- permanent writedowns of property	-	-	34
- depreciation of furniture and installations	73	82	76
Total	**293**	**307**	**281**

Individual assets have been written down with reference to their remaining useful lives using, in most cases, the maximum fiscally-allowed rates, including the provision of accelerated depreciation.

Provisions for risks and charges (caption 100)

Provisions for risks and charges, Euro 81 million, made during the year ended December 31, 1999 reflect the consolidation of the corresponding provision of the Bank (Euro 57 million) and provisions made by subsidiary companies (Euro 24 million).

Provisions for risks and charges, Euro 57 million, recorded during the year by the Bank, include the following:

- Euro 41 million designed to increase the coverage of expected losses from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers, as well as other likely charges;
- Euro 16 million designed to increase the coverage of the reserve for pension and similar commitments, including Euro 6 million to cover long-service bonuses to the Bank's employees, Euro 6 million to integrate the provisions established to balance the technical deficit of the Bank’s employee pension fund, Euro 3 million to cover other potential pension charges and Euro 1 million of potential costs connected with the reorganization of the New York and Frankfurt offices.

The provisions made by foreign subsidiaries relate to prudent provisions made by subsidiaries operating in the area of financial services for families for risks connected to the activity of marketing financial products.

Provisions for risks and charges, Euro 125 million, made during the year ended December 31, 1998 reflect the consolidation of the corresponding provision of the Bank (Euro 76 million) and provisions made by subsidiary company (Euro 49 million).

The provision made by the Bank includes Euro 60 million for the coverage of expected losses from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers, as well as likely charges arising from the Bank's commitment to the Interbank Deposit Guarantee Fund and on guarantees given in connection with the disposal of equity investments. The caption also includes Euro 6 million designed to cover long-service bonuses to the Bank's employees, Euro 5 million to supplement reserves used to balance the Bank’s employee pension fund, Euro 4 million to cover other potential pension charges and Euro 1 million to cover potential costs incurred for the restructuring of the New York branch. In relation to the subsidiaries, the provision also includes Euro 23 million pertaining to the subsidiary Crediop S.p.A. to cover risks on equity investments (Euro 23 million) and potential pension charges (Euro 2 million), as well as Euro 16 million relating to prudent provisions made by subsidiaries operating in the area of financial services for families for risks connected to the activity of marketing financial products.

Provisions for risks and charges, Euro 52 million, recorded during the year ended December 31, 1997, are designed to increase the coverage of expected losses from legal action and, in particular, from repayments claimed by the receivers of bankrupt customers, as well as likely charges arising from the Bank’s commitment to the Interbank Deposit Guarantee Fund and on guarantees given by the Bank in connection with the disposal of equity investments. The caption also includes Euro 5 million designed to cover long-service bonuses to the Bank’s employees.

The following table sets out the analysis of caption 120 “Adjustments to loans and provisions for guarantees and commitments” (caption 120).

(Table 5.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
(a) Adjustments to loans	663	763	1,029
of which:			
- *general adjustments for country risk*	*56*	89	43
- *other general adjustments*	*11*	39	116
(b) Provisions for guarantees and commitments	1	17	8
of which:			
- *general provisions for country risk*	-	-	-
- *other general provisions*	-	13	-
Total	**664**	**780**	**1,037**

In addition to the above adjustments, default interest of Euro 176 million (Euro 212 million in 1998 and Euro 256 million in 1997) due during the year has been reversed from interest income.

Writebacks of adjustments to loans and provisions for guarantees and commitments (caption 130)

(in millions of Euro)

	12/31/99	12/31/98	12/31/97
Revaluation of loans previously written down	134	92	141
Revaluation of loans previously written off	3	15	67
Revaluation of provisions for guarantees and commitments	1	1	6
Collection of loan principal previously written down	116	53	55
Collection of loan principal and interest previously written off	65	53	47
Collection of default interest previously written down	42	41	24
Total	**361**	**255**	**340**

Provisions to reserves for possible loan losses (caption 140)

Provisions to reserves for possible loan losses represent, in 1999 and 1998, the provisions made by certain subsidiary companies and do not adjust risks which are only potential.

Adjustments to financial fixed assets (caption 150)

(in millions of Euro)

	12/31/99	12/31/98	12/31/97
Adjustments to investment securities	14	26	7
Adjustments to equity investments	75	41	3
Total	**89**	**67**	**10**

Adjustments to investment securities made by the Bank in 1999, Euro 14 million, reflect the writedown of certain unsecured securities issued by residents of Russia. This follows an increase in the writedown rate from 60% to 85%, in view of the continuing debt servicing difficulties experienced by that country.

Adjustments to investment securities in 1998 and 1997, totaling Euro 26 million and Euro 7 million respectively, reflect the writedown of certain unsecured securities issued by residents of countries at risk. In particular, these adjustments relate to securities issued by counterparties resident in the Russian Federation and Macedonia, which have been written down by applying the percentages established by the Bank of Italy.

Adjustments to equity investments relate to the writedown of holdings in the following non-consolidated companies to take account of permanent losses in value:

(in millions of Euro)	12/31/99
Beni Stabili S.p.A.	58
Inter Europa Bank Rt	4
Milano Assicurazioni S.p.A.	3
Snia BPD S.p.A.	2
Rimoldi Necchi S.p.A.	1
Sanità S.p.A.	1
Other minor equity investments	6
Total	**75**

(in millions of Euro)	12/31/98
Apokè Six Srl	16
Banco del Desarrollo SA	11
Eurotunnel	3
Rimoldi Necchi SpA	3
Abete Sviluppo SpA	3
Other minor equity investments	5
Total	**41**

(in millions of Euro)	12/31/97
Sgr Spa	1
Impresa Casteli Spa	1
Total	**2**

(28) OTHER CONSOLIDATED STATEMENT OF INCOME CAPTIONS

Consolidated statement of income captions 70, 110, 190, 200, 230 and 240, not discussed above, comprise:

Other operating income (caption 70)

Analysis of caption 70 "Other operating income"

(Table 6.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
Expenses recovered from customers			
- stamp duties	115	114	101
- other taxes	16	17	25
- legal costs	14	11	10
- other recoveries	15	23	14
Reimbursement of services rendered to third parties	14	7	17
Gains on the sale of leased assets	3	4	2
Property rental income	5	23	24
Income from merchant banking activities	28	10	-
Other income	14	15	21
Total	**224**	**224**	**214**

Other operating expenses (caption 110)

Analysis of caption 110 "Other operating expenses"

(Table 6.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
Other charges on leasing transactions	11	15	n.d.
Other expenses for marketing network agents	10	9	n.d.
Losses on the sale of leased assets	5	15	17
Leasing charges on furniture and fittings	3	1	2
Losses from merchant banking activities	2	2	-
Other expenses	9	9	18
Total	**40**	**51**	**37**

Extraordinary income (caption 190)

Analysis of caption 190 "Extraordinary income"

(Table 6.3 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
Out-of-period income			
- income taxes for the prior years paid in advance	-	86	44
- use of tax reserve and deferred taxation in excess relating to prior years	1	18	3
- collection of default interest relating to prior years	-	1	-
- exchange rate effect on consolidation adjustments	2	8	-
- other out-of-period income	31	43	40
Amounts not payable	2	2	8
Gains on:			
- translation into foreign currency of endowment funds of foreign branches	-	-	28
- disposal of financial fixed assets - equity investments	327	18	110
- disposal of financial fixed assets - investment securities	1	3	3
- disposal of financial fixed assets - other	-	37	-
- disposal of tangible fixed assets	3	8	1
Total	**367**	**224**	**237**

Extraordinary expense (caption 200)

Analysis of caption 200 "Extraordinary expense"

(Table 6.4 B.I.) (in millions of Euro)

	12/31/99	12/31/98	12/31/97
Deposit Guarantee fund	-	1	38
Settlements relating to legal disputes	-	-	15
Extraordinary contribuition to the Interbank Guarantee Fund	-	-	6
Severance bonus incentive for voluntary redundancy	22	24	-
Exchange rate effect on consolidation adjustments	4	6	-
Other out-of-period expenses	41	26	13
Amounts not collectible	1	3	-
Losses on:			
- translation into foreign currency of foreign equity investments	-	-	-
- disposal of financial fixed assets - equity investments	4	-	23
- financial fixed assets	-	2	-
- translation into foreign currency of endowment funds of foreign branches	-	-	1
- disposal of tangible fixed assets	1	2	2
Total	**73**	**64**	**98**

Income taxes for the year (caption 240)

Breakdown of caption 240 Income taxes for the year (B.I. Instructions dated 08.03.99)	(in millions of Euro)
1. Current income taxes	696
2. Change in deferred tax assets	(28)
3. Change in deferred tax liabilities	17
4. Income taxes for the year	685

(29) OTHER INFORMATION REGARDING THE CONSOLIDATED STATEMENT OF INCOME

Geographical distribution of revenues

The geographical distribution of revenues, based on the location of the Bank's branches and of consolidated companies for years 1999, 1998 and 1997, is as follows:

(Table 7.1 B.I.) (in millions of Euro)

	12/31/99				12/31/98				12/31/97			
	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total	Italy	Other EU countries	Other countries	Total
Interest income and similar revenues	4,708	894	364	5,966	7,780	1,508	693	9,981	6,705	1,454	727	8,886
Dividends and other revenues	220	30	-	250	99	45	-	144	9	46	-	55
Commission income	1,958	611	18	2,587	1,800	420	11	2,231	1,028	77	9	1,114
Profits (losses) on financial transactions	98	(12)	17	103	220	(6)	(8)	206	120	53	4	177
Other operating income	194	30	-	224	204	19	-	223	172	41	1	214
Total revenues	**7,178**	**1,553**	**399**	**9,130**	**10,103**	**1,986**	**696**	**12,785**	**8,034**	**1,671**	**741**	**10,446**

(30) OTHER INFORMATION

DIRECTORS AND STATUTORY AUDITORS

Remuneration

The remuneration of Directors and Statutory Auditors for the performance of their duties on behalf of the Bank and subsidiary companies is reported below:

(Table 1.1 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Directors	3	3
Statutory Auditors	1	1

A detailed analysis of emoluments paid to Directors, Statutory Auditors and General Managers is reported in the next page.

Remuneration paid to Directors, Statutory Auditors and General Managers
(pursuant to article 32 of Consob resolution no. 11520 of 1/7/98)

DETAILED COMPENSATION								*(in thousands of Euro)*
Name and surname	**Position held**	**Term of office**	**Compensation**		**Benefits in kind**	**Bonuses and other incentives (1)**	**Other emoluments (3)**	
ARCUTI Luigi	Chairman (2)	1998/2000	319				28	
ALBANI CASTELBARCO VISCONTI Carlo	Director	1998/2000	58		-	-	-	
BOTIN Emilio	Director	1998/2000	40		-	-	25	
FABRIZI Pier Luigi	Director (2)	1/1 - 15/6/99	39		-	-	25	
FONTANA Giuseppe	Director	1998/2000	59		-	-	35	
GALATERI DI GENOLA Gabriele	Director (2)	1998/2000	84		-	-	-	
INCIARTE Juan Rodriguez	Director (2)	1998/2000	72		-	-	-	
GRONCHI Divo	Director	1/1 - 16/5/99	17	(4)	-	-	-	
MARANZANA Luigi	Managing Director (2)	1998/2000	241		-	362	-	(a)
	General Manager		413		3	-	-	
MARRONE Virgilio	Director	1998/2000	73	(5)	-	-	26	(5)
MASERA Rainer Stefano	Managing Director (2)	1998 - 2000	241		-	362	-	(b)
	General Manager		420		20	-	-	
MASINI Mario	Director	1998/2000	59		-	-	-	
MIHALICH Iti	Director (2)	1998/2000	85		-	-	25	
OTTOLENGHI Emilio	Director	1998/2000	59		-	-	17	
PREDA Stefano	Director (2)	1998/2000	88		-	-	29	
SALZA Enrico	Director (2)	1998/2000	86		-	-	-	
SCLAVI Antonio	Director (2)	25/5/99 - 2000	39		-	-	-	
VERCELLI Alessandro	Director	22/6/99 - 2000	21		-	-	-	
VERMEIREN Remi François	Director	1998/2000	54		-	-	25	
JONA CELESIA Lamberto	Chairman of Statuary Auditors	1/1 - 30/4/99	23		-	-	108	
PAOLILLO Mario	Statutory Auditor	1/1 - 30/4/99	80		-	-	83	
	Chairman of Statuary Auditors	1/5/99 - 2001						
BENEDETTI Aureliano	Statutory Auditor	1999 - 2001	59		-	-	66	
DALLOCCHIO Maurizio	Statutory Auditor	30/4/99 - 2001	43		-	-	-	
MIGLIETTA Angelo	Statutory Auditor	1999 - 2001	61		-	-	6	
RAGAZZONI Ruggero	Statutory Auditor	1999 - 2001	60		-	-	35	

(1) The Members of the Board of Directors, other than the Manager Directors (who were awarded the bonuses indicated in the table) are entitled to a bonus amounting to Euro 1,049 thousand, based on the Group's results. The amount to be distributed to each member has been calculated on the basis of each Director's attendance and participation rate to the Board meetings.
(2) Members of the Executive Committee
(3) Remuneration from subsidiary companies
(4) Paid to Monte dei Paschi di Siena SpA
(5) Paid to IFI SpA
(a) Euro 27 thousand paid to SANPAOLO IMI
(b) Euro 26 thousand paid to SANPAOLO IMI

Stock option plan for the year ended December 31, 1999

Implementing the shareholders' resolution passed at the meeting held on July 31, 1998, on February 9, 1999, the Bank's Board of Directors launched a stock option plan, structured as follows:

a) *Beneficiaries*: the Managing Directors and 56 top managers within the Group, as identified by the Managing Directors with the Chairman's agreement.
b) *Rights decided by the Board of Directors*: 7,000,000 rights to buy 7,000,000 shares.
c) *Rights assigned*: 6,772,000, of which 370,000 to each of the Managing Directors and 6,032,000 to the other 56 managers.
d) *Duration*: three years from January 1, 1999.
e) *Exercising rights*: a third of the rights can be exercised after the shares become ex-dividend for the financial year 1999, another third when they become ex-dividend for the financial year 2000 and the final third they become ex-dividend for the financial year 2001. Rights not exercised will expire by March 31, 2003.
f) *Subscription price*: initially set at 12.7746 Euro, which was the average market price of Sanpaolo IMI shares in the last quarter of 1998; subsequently adjusted to 12.3960 Euro to take account of the real estate spin-off to Beni Stabili in October.
g) *Increase in share capital and impact on net equity*: if all 6,772,000 rights were to be exercised, this would lead to an increase in share capital of Euro 19 million (0.48%), booking additional paid-in capital of Euro 65 million.
h) *Restrictions*: exercising rights may be subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

Loans and guarantees given

Loans and guarantees given

(Table 1.2 B.I.) (in millions of Euro)

	12/31/99	12/31/98
Directors	10	105
Statutory Auditors	1	1

The amounts indicated above include loans granted to and guarantees given by the Group to the Directors and Statutory Auditors, Euro 0.2 million, and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, Euro 11 million, including the drawdown against credit lines granted to the latter.

(31) SIGNIFICANT DIFFERENCES BETWEEN ITALIAN AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As described in Note 1, the Consolidated Financial Statements of the Sanpaolo IMI Group are presented in accordance with accounting principles established or adopted in Italy ("Italian GAAP") which vary in certain respects from generally accepted accounting principles in the United States of America ("U.S. GAAP"). Following is a summary of the major differences:

(31.1) SIGNIFICANT VALUATION AND INCOME RECOGNITION PRINCIPLES UNDER ITALIAN AND U.S. GAAP

ITALIAN GAAP	U.S. GAAP
(a) Valuation of Fixed Assets	
Premises and equipment are reported in the financial statements at historical cost, adjusted in some cases by the application of specific monetary revaluation laws. Such revaluations are permitted by Italian accounting principles. Premises and equipment have been written down to reflect any permanent loss in value. Depreciation is calculated on the revaluated amounts on a straight-line basis applying rates which reflect the useful lives of the related assets.	U.S. GAAP does not permit revaluation of fixed assets.

ITALIAN GAAP	U.S. GAAP

(b) Investments in Debt and Equity Securities	
For Italian GAAP purposes, Sanpaolo IMI accounts for investment and trading, debt and equity securities as follows: • Held to maturity and permanent investment securities are stated at amortized cost less any permanent diminution in value. The accretion or amortization of discount or premium, respectively, are recorded in the income statement in the period incurred. • Marketable debt securities and equity securities that the Group owns for purposes of trading (treasury or dealing) and all other securities held without a particular identifiable purpose are classified as Trading Securities. These securities are recorded at market value, with the related unrealized gains and losses reflected currently in the income statement. • Debt and equity securities held for sale by the Group's insurance subsidiaries are recorded at the lower of cost or market value, with any related losses reflected currently in the income statement. • Permanent investment in companies where Sanpaolo IMI owns less than 20% of the voting shares are recorded under the cost method.	Under U.S. GAAP, marketable equity and all debt securities held for investment must be classified, according to management's intent, into one of the following categories: trading, available-for-sale or held-to-maturity securities. Equity investments in companies owned less than 20% with readily determinable fair values are classified as trading or available-for-sale, depending on the intent of management with respect to the investment. Trading securities (those actively bought and sold or held for treasury purposes) should be marked-to-market, with the resulting unrealized gain or loss recognized currently in the income statement. Available for sale securities should be marked-to-market, with the resulting unrealized gain and loss recorded as a net amount directly to a separate component of equity until realized, at which time the gain or loss is recorded in income. Held to maturity securities (a classification allowed only for debt securities and for preferred stock with required redemption dates) should be carried at amortized cost. Other than temporary impairments in value are accounted for as realized losses. Non-marketable equity investments of 20% or less are accounted for under the cost method. Carrying values of individual non-marketable equity securities are reduced through write-downs to reflect other than temporary impairments in value.

ITALIAN GAAP	U.S. GAAP

(c) Investments in Life Insurance Company	
The Group's life insurance companies (accounted for under the equity method in the consolidated financial statements) account for costs for new contracts in accordance with Italian GAAP. Under these principles acquisition costs for new contracts are expensed or amortized over three or five years.	Under U.S. GAAP acquisition costs for new contracts are amortized over the useful life of the contracts.

ITALIAN GAAP	U.S. GAAP

(d) Tax on Equity	
The bank and its Italian subsidiaries were assessed and remitted taxes on the respective statutory stockholders' equity. In the consolidated financial statements, these taxes have been deducted directly from reserves, as allowed under Italian law.	Under U.S. GAAP, all taxes must be charged to the consolidated statement of income.

ITALIAN GAAP	U.S. GAAP

(e) Pension Plans	
A defined benefit pension plan has been granted to certain of the Bank's employees by a separate legal entity called "Cassa di Previdenza". The Bank is contingently liable in the future if the assets of the plan are insufficient to fund the future benefit payments to the plan participants. As such, under Italian GAAP, the Bank has accrued amounts reflecting its contingent liability to the plan.	Since the plan assets of Cassa di Previdenza are greater than the Projected Benefit Obligation ("PBO") determined following U.S. GAAP, the liability accrued by the Bank for pension plan has been reversed.

ITALIAN GAAP	U.S. GAAP

(f) Stock option plan	
There is no specific accounting principle nor any established method.	The fair value of the options granted to employees calculated at the date of grant should be expensed in the vesting period. It is also possible to use the intrinsic value of the options instead of the fair value. The Group applies APB Opinion 25 and related interpretation in accounting for stock option plan.

ITALIAN GAAP	U.S. GAAP

(g) Business Combinations	
In Italy there are no Civil Code rules or specific Accounting Principles regarding the accounting treatment of "Business Combinations," with particular reference to mergers. Consequently, Italian accounting practice has developed on the basis of the tax rules specifically applicable to merger transactions. This accounting practice results in an accounting method which, depending on the legal and tax definitions of the merger provisions, combines aspects of the U.S. "Purchase" and "Pooling" methods of accounting for business combinations. Following Italian practice, the evaluation of accounting does not involve a choice between mutually exclusive methods, but instead is dependant on the provisions of the business combination agreement. The following is a summary of key elements of accounting for business combinations under Italian practice: 1. when combinations are conducted through the exchange of stock, generally the assets and liabilities — at the reported historical values of the combining enterprises — are aggregated, as in consolidation, with intercompany eliminations; 2. when the acquirer holds an investment in the acquiree, at the moment of the merger, the difference between the reported historical cost of such investment and the underlying portion of the acquiree net equity should be accounted for as goodwill or as a revaluation of the respective assets and liabilities; 3. with respect to the acquisition of a controlling interest through the exchange of shares, the difference between the value of the share capital issued and the underlying portion of the acquiree net equity acquired, at historical value, is accounted for as follows: • if positive, the difference is allocated to goodwill and amortized over its useful life; • if negative, the difference is recorded as increase in net equity.	There are two mutually exclusive methods of accounting for business combinations: (1) Purchase accounting: the valuation is based on fair values of the net assets as of the time of the acquisition. The differences between the fair value of the net assets and the consideration paid represent goodwill. Income of the acquired company is reflected only from the acquisition date onwards. (2) Pooling of interest accounting is done by simply combining the historical accounts of the parties both retroactively and prospectively. No fair value adjustments are made. A number of restrictive conditions must be met. Positive goodwill arising in business combinations is amortized to income over the period estimated to be benefited which for financial institutions generally does not exceed 25 years.

ITALIAN GAAP	U.S. GAAP
(h) Equity Reserves	
Stockholders’ equity includes revaluation reserves that would become taxable only if distributed. Under Italian GAAP no deferred tax liability has been recognized since, at this time, the distribution is not expected to occur.	Under U.S. GAAP deferred taxes on such reserves must be charged to the consolidated statement of income

ITALIAN GAAP	U.S. GAAP
(h) Consolidation and Investments in Related Companies	
The consolidated financial statements incorporate the financial statements of Sanpaolo IMI (parent Company of the Group), and those of the subsidiary companies in which Sanpaolo IMI, whether directly or indirectly, on a non-temporary basis, holds more than 50% of the voting share capital. Subsidiary companies operating in the insurance and real estate industries are included in the consolidated financial statements on a net equity basis. Investments in companies where Sanpaolo IMI owns 20% or more of the voting shares are accounted for under the equity method, which is consistent with US GAAP.	Under US GAAP, the Company’s insurance subsidiaries would be included within the scope of consolidation.

ITALIAN GAAP	U.S. GAAP
(i) Earning per Share	
There are no Italian GAAP and legal requirement to disclose earning per share. Sanpaolo IMI discloses such information, although there is no common basis for its calculation.	For U.S. GAAP purpose Sanpaolo IMI follows the guidelines prescribed by Statement of Financial Accounting Standard No. 128 “Earning per Share”.

ITALIAN GAAP	U.S. GAAP
(l) Treasury Shares	
Legal provisions exist for the purchase of own shares and parent shares. Specific reserves must be made to effect the purchases. The repurchased shares are shown as assets and reserves for repurchased shares are shown as restricted reserves in equity.	Shares may be repurchased for retirement or other purposes. If shares are not retired, the cost of the repurchase should be reflected as a reduction to equity. Treasury shares are shown as assets only in rare instances.

(31.2) NET INCOME AND STOCKHOLDERS' EQUITY RECONCILIATION BETWEEN ITALIAN AND U.S. GAAP

Following is a summary of the most significant adjustment to consolidated net income and to consolidated stockholders' equity which would be required if U.S. GAAP had been applied to the accompanying consolidated financial statement.

Net income

	Year ended December 31,		
	1999	**1998**	**1997**
		(millions of Euro)	
Net income after minority interest as reported under Italian GAAP	1,050	909	87
Adjustments to conform to U.S. GAAP:			
Reversal of contingent pension liability	6	5	-
Allowance for possible loan losses	-	75	207
Accounting for investment securities portfolio and derivatives	46	(8)	(39)
Adjustment relating to life insurance subsidiaries	32	20	12
Allowance for general banking risks	1	8	-
Reduction in depreciation and increase in capital gains of fixed assets and investments revaluated	50	98	90
Stock option plan	(3)	-	-
Deferred tax effect on above adjustments	(55)	(82)	(79)
Deferred taxes on temporary differences	-	(49)	(59)
Deferred tax on equity reserves (Amato law)	-	(17)	11
Substitute tax charged to equity under Italian GAAP	-	-	(7)
Accrual of tax on equity	-	-	(45)
Pre-acquisition net earning of IMI Group	-	(350)	-
Purchase accounting adjustments	(122)	(44)	-
Amortization of goodwill related to business combination	(163)	(41)	-
Net income after minority interest in accordance with U.S. GAAP	842	524	178

Comprehensive income

	1999	1998	1997
Net income after minority interest in accordance with U.S. GAAP	842	524	178
Gross change in unrealized gain/loss on AFS securities	110	153	(40)
Less: reclassification adjustments (for realized gains/losses on sales of AFS securities previously included in comprehensive ncome)	(59)	(3)	(3)
Net change in unrealized gain/loss on AFS securities	51	150	(43)
Change in foreign currency translation adjustments	6	(20)	14
Tax effect	(24)	(66)	23
Other comprehensive income	33	64	(6)
Comprehensive income	875	588 -	172

Tax effect of other comprehensive income components

	1999	1998	1997
Tax effect of gross gain/loss on AFS securities	(52)	(66)	27
Tax effect of reclassification adjustments	28	-	2
Tax effect of net change in unrealized gain/loss on AFS securities	(24)	(66)	29
Tax effect of foreign currency translation adjustments	-	-	(5)
	(24)	(66)	24

Stockholders’ equity

	At December 31,	
	1999	1998
	(millions of Euro)	
Stockholders' equity reported under Italian GAAP	8,372	8,669
Adjustments to conform to U.S. GAAP:		
Reversal of Contingent Pension Liability	99	93
Accounting for securities portfolio and derivatives	323	187
Adjustment relating to life insurance subsidiaries	62	62
Elimination of revaluation of fixed assets, investment and goodwill	(604)	(813)
Net prepaid tax effect on above adjustments	38	191
Deferred tax on equity reserves	(346)	(384)
Difference between cost and fair market value of Sanpaolo treasury shares	-	239
Sanpaolo IMI treasury shares	(357)	(244)
Purchase accounting adjustments	975	1,050
Goodwill related to business combination	3,064	3,228
Stockholders' equity in accordance with U.S. GAAP	11,626	12,278

Notes to the adjustments to consolidated net income and stockholders' equity

(A) Consolidation procedures

A number of insurance companies are more than 50% owned by the Bank, whose business activities differ from those of the Bank's and are therefore accounted for by the equity method. Under U.S. GAAP, these companies should be consolidated using the global integration method. The effect of using one method instead of the other would have no impact on the consolidated stockholders' equity or on the consolidated net income and the management considers immaterial the impact on total consolidated assets and liabilities.

(B) Allowance for possible loan losses

As described in Note 6 "Changes in accounting policies", the Group measured impairment based on the present value of expected future cash-flows discounted at the loan's effective interest rate in accordance with SFAS No. 114 for the first time in 1998.

(C) Deferred taxes on temporary differences

In 1998 the Group adopted an accounting treatment of deferred taxation consistent with the contents of IAS No. 12 and SFAS No. 109. For a complete discussion of the changes in accounting policies see Note 6 "Changes in accounting policies".

(D) Accounting for business combination

The merger between Istituto Bancario SanPaolo di Torino S.p.A. and Istituto Mobiliare Italiano S.p.A. had legal effect as of November 1, 1998, while for accounting purposes the merger was backdated to January 1, 1998. Assets and liabilities of the merged bank were recorded at their historical book values and the 1998 statement of income includes all the profits and losses of both the merged banks. Under US GAAP, the merger has to be accounted for by the purchase method as of November 1, 1998.

(31.3) SIGNIFICANT PRESENTATION DIFFERENCES BETWEEN ITALIAN AND U.S. GAAP

In addition to the differences in valuation and income recognition principles disclosed in Note No. 31.1 and 31.2, other differences relating to the presentation of financial statements exist between Italian and U.S. GAAP formats. These differences do not cause differences between Italian and U.S. GAAP reported net income and Stockholders' equity, but only in the presentation of the consolidated financial statements.

Following is a summary of the significant classification differences between U.S. GAAP formats – as set forth in Regulation S-X of the Securities and Exchange Commission of the United States of America - and Italian formats.

Balance Sheet (Asset Side)

(A) Treasury bills and similar bills eligible for refinancing with central banks are presented as a separate item (caption No. 20) in the Italian balance sheet. Under U.S. GAAP such investments are presented under "Trading account assets".

(B) Under Italian GAAP "Interest-bearing deposits in other banks" are presented under the caption "30 Due from banks".

(C) Federal funds sold and securities purchased under resale agreements or similar arrangements to banks and other customers are presented respectively in captions "30 Due from banks" and "40 Loans to customers".

(D) Amounts under caption "30 Due from banks" and "40 Loans to customers", except those indicated in (C) and (D), are presented under "Loans" in the U.S. GAAP balance sheet.

(E) Investments in securities shown under captions "50 Bonds and other debt securities" and "60 Shares and other equities" are presented under "Trading account assets", "Available for sale securities" and "Held to maturities" according to classification of SFAS No. 115.

(F) Investments in affiliated companies are presented under "70 Equity investments" and "80 Equity Investments in Group companies". Under U.S. GAAP such investments are presented under "Investments in affiliated companies".

(G) Goodwill arising on application of the equity method is shown as a separate item in the Italian balance sheet (caption No. 100), while according to U.S. GAAP it is presented under "Investments in affiliated companies".

(H) Amounts under "120 Tangible fixed assets" have been shown under "Premises and equipment" in the U.S. consolidated balance sheet.

(I) Amounts under caption "140 Own shares" are included in Sanpaolo IMI shares under U.S. GAAP Format. These shares are deducted from stockholders' equity in the Note 31.2 "Stockholders' equity reconciliation between Italian and U.S. GAAP ".

(J) The following captions of the asset side of the Italian balance sheet are presented under "Other assets" according to U.S. GAAP formats: "90 Goodwill arising on consolidation", "110 Intangible fixed assets", "150 Other assets", "160 Accrued income and prepaid expenses".

Balance Sheet (Liabilities and Shareholders' Equity)

(K) "Securities sold under repurchase agreements" to banks and other customers are presented respectively in captions "10 Due to banks" and "20 Due to customers".

(L) Deposits to banks, customers and deposits in security form are presented respectively under captions "10 Due to banks", "20 Due to customers" and "30 Securities issued" while according to U.S. GAAP they are included under the separate caption "Deposits".

(M) Short-term borrowings presented under caption "30 Securities issued" are reported in a separate caption in the U.S. GAAP balance sheet. They consist primarily of commercial paper.

(N) Amounts under captions "10 Due to banks", "20 Due to customers", "30 Securities issued", "40 Public funds administered" and "110 Subordinated liabilities" with maturity greater than one year are presented under the caption "Long term debt" in U.S. GAAP.

(O) The following captions of the Italian balance sheet are presented under "Other liabilities" according to U.S. GAAP: "50 Other liabilities", "60 Accrued expense and deferred income", "70 Provision for termination indemnities", "80 Provision for risks and charges".

(P) Minority interest (caption No 140) is presented in the same named caption "Minority interest in consolidated subsidiaries" and the amount under "150 Capital" is presented under caption "Capital stock".

(Q) Captions "100 Reserve for general banking risks", "120 Negative goodwill arising on consolidation", "130 Negative goodwill arising on application of the equity method", "160 Additional paid-in capital", "170 Reserves", "180 Revaluation reserves" and "200 Net income for the year" are presented under caption "Other stockholders' equity" under U.S. GAAP.

Statements of Income

(R) “Interest earnings on deposits and loans to credit institutions”, “Interest on investment securities” and “Trading account interest” are reported under caption “10 Interest income and similar revenues” in the Italian statement of income. Under U.S. GAAP such amounts are under separate captions.

(S) The captions of U.S. statements of income “Interest Expense - Borrowings from credit institutions”, “Interest Expense - Borrowings from non-credit institutions”, “Interest Expense - Securities and commercial paper” and “Net effect of off-balance sheet instruments” are presented under caption “20 Interest expense and similar charges” according to Italian GAAP.

(T) Amounts presented in caption “Interest Income - Loans and lease to credit institution” under U.S. GAAP are included in captions “10 Interest income and similar revenues”, “40 Commission income” and “140 Provision to the reserve for possible loan losses” under Italian GAAP according to the nature of such income.

(U) “Net write-offs and provision for loan losses” are shown under “120 Adjustments to loans and provisions for guarantees and commitments”.

(V) The caption “30 Dividends and other revenues – b) from investments” in the Italian statements of income is reported in caption “Dividends” under U.S. GAAP.

(W) “Commission and fees from fiduciary activities”, “Commissions, brokers' fees and markups on securities underwriting and other securities activities” shown as separate captions under U.S. GAAP are classified in caption “40 Commission income”.

(X) Amounts under caption “Fees for other customer services” in statements of income under U.S. GAAP are presented in caption “40 Commission income” and “70 Other operating income” (for the refunds of expenses) under Italian GAAP.

(Y) The following captions in the Italian GAAP statements of income are presented in caption “Profit or loss on transactions in securities in dealer trading account” under U.S. GAAP: “30 Dividends and other revenues – a) from shares and other equities” and “60 Profits (losses) on financial transactions”.

(Z) The caption “Equity in (loss) earnings of unconsolidated subsidiaries” in U.S. GAAP is reported in the caption “170 Income (losses) from investments carried at equity” under Italian GAAP.

(AA) The amounts shown in caption “Income or loss in affiliated, other companies and investments securities” under U.S. GAAP are presented primarily in “150 Adjustments to financial fixed assets”, “160 Writebacks of adjustments to financial fixed assets” “190 Extraordinary income” and “200 Extraordinary expenses”.

(BB) The captions “Goodwill amortization” and “ Amortization of intangibles” in the U.S. GAAP are reported in caption “90 Adjustments to intangible and tangible fixed assets”.

(CC) Salaries and employee benefits are presented under caption “80 Administrative costs – a) payroll” in Italian statements of income.

(DD) In the caption “Net occupancy expenses of premises” under U.S. GAAP are presented net costs of not owned premises (e.g. rentals payable, costs of routine maintenance). They are shown in different captions in Italian statements of income: “70 Other operating income”, “80 Administrative costs – b) other”, “90 Adjustment to intangible and tangible fixed assets” and “110 Other operating expenses”.

(EE) In the caption “Net cost of operation of premises and equipment” under US GAAP are presented net costs of owned premises. They are recorded in different caption under Italian GAAP format: “ 70 Other operating income” ,“90 Adjustment to intangible and tangible fixed assets”,“190 Extraordinary income”, “200 Extraordinary expenses”.

(FF) “Income tax expense” is presented in the caption “240 Income tax” according to Italian GAAP format.

(GG) “Minority interest in income of consolidated subsidiaries” is shown in caption “250 Minority interests” in Italian statements of income.

(HH) The remaining amounts - not reported in the above illustrated items – are shown in “Other income” and “Other expenses” in the U.S. statement of income.

(31.4) CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

	At December 31,	
	1999	1998
	(in millions of Euro)	
ASSETS		
Cash and due from banks	528	422
Interest-bearing deposits in other banks	9,104	12,305
Federal funds sold and securities purchased under resale		-
agreements or similar arrangements	7,334	12,979
Trading account assets	16,444	22,812
Investment securities		-
Held to maturity	322	219
Available for sale securities	1,614	2,691
Loans, net of allowance loan losses of Euro 3,458 million		-
and Euro 3,469 million in 1999 and 1998, respectively	78,880	84,697
Premises and equipment	1,120	1,669
Investments in affiliated companies	3,398	1,370
Sanpaolo IMI shares	357	5
Other assets	21,122	19,120
TOTAL ASSETS	140,223	158,289

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	58,770	50,132
Short-term borrowings	2,584	1,395
Securities sold under repurchase agreements	9,484	14,026
Other liabilities	22,819	22,556
Long-term debt	37,655	61,117
Total Liabilities	131,312	149,226
Commitments and Contingencies (Note 20)		
Minority Interest in Consolidated Subsidiaries	539	394
Capital stock (consisting of 1,402,184,948 issued and outstanding		
Share, par value Euro 2,8 per Share)	3,926	4,345
Other stockholders' equity	4,446	4,324
Total Stockholders' Equity	8,372	8,669
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	140,223	158,289

Consolidated Statements of Income

	Year ended December 31,		
	1999	1998	1997
	(in millions of Euro)		
Interest Income:			
Interest earnings deposits and loans to credit institutions	715	1,443	1,559
Loans and leases to non-credit institutions	4,326	6,871	5,884
Interest on investment securities	69	139	338
Trading account interest	846	1,493	1,215
Total Interest Income	5,956	9,946	8,996
Interest Expense:			
Borrowings from credit institutions	(992)	(1,909)	(1,497)
Borrowings from non-credit institutions	(892)	(1,577)	(2,860)
Securities and commercial paper	(1,915)	(3,647)	(2,264)
Total Interest Expense	(3,799)	(7,133)	(6,621)
Net effect of off-balance sheet instruments	(135)	(167)	(132)
Net Interest Income	2,022	2,646	2,243
Net write-offs and provision for loan losses	(302)	(508)	(695)
Net Interest Income after provision for loan losses	1,720	2,138	1,548
Non Interest Income:			
Dividends	102	26	10
Commission and fees from fiduciary activities	1,230	910	265
Commissions, broker's fees and markups on securities underwriting and other securities activities	415	396	241
Fees for other customer services	1,034	708	570
Profit or loss on transactions in securities in dealer trading account	251	324	223
Equity in (loss) earnings of unconsolidated subsidiaries	118	82	(106)
Income (loss) in affiliated, other companies and investments securities, net	211	(84)	43
Other income	161	610	204
Total Non Interest Income	3,522	2,972	1,450
Non Interest Expense:			
Salaries and employee benefits	(1,534)	(1,543)	(1,477)
Net occupancy expenses of premises	(291)	(310)	(278)
Goodwill amortization	(59)	(60)	(42)
Net cost of operation of premises and equipment	7	29	(14)
Amortization of intangibles	(77)	(66)	(39)
Other expenses	(1,491)	(1,528)	(957)
Total Non Interest Expense	(3,445)	(3,478)	(2,807)
Income Before Income Tax Expense	1,797	1,632	191
Income Tax Expense	(685)	(630)	(70)
Net Income	1,112	1,002	121
Minority interest in income of consolidated subsidiaries	(62)	(93)	(35)
Net Income after Minority Interest	1,050	909	86
Earning per share (in Euro)	0.75	0.65	0.11

(31.5) ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

In addition to differences between generally accepted accounting principles in Italy and the United States impacting the measurement of net income and stockholder's equity as summarized in Note 31.2, U.S. GAAP includes unique financial reporting disclosure requirements relating to Assets, Liabilities & Commitments and Other Qualitative Information as summarized below. Certain reclassifications have been made to prior years numbers to conform to 1999 presentation:

U.S. GAAP	***Italian GAAP***
ASSETS	
Investment Securities	
Supplemental disclosures include presentation of investments aggregated in accordance with the U.S GAAP classifications and by maturity. According to FAS 115, in this table debt and equity securities are classified as one of the following categories: a) held to maturity b) available for sale c) trading For each balance sheet presented, it is required the fair value, gross unrealized gains and losses, and book value by major securities type. See note 31.5 (a).	There are only two categories, investment securities and dealing securities, in which it is required to disclose book value and market value. See note 31.5 (a).
Securities Purchased under Resale Agreements	
According to regulation S-X 4-08 (m), if the aggregate carrying amount of reverse repurchased agreements exceeds 10% of total assets specific disclosures are required. See note 31.5 (b).	It is not necessary to provide information other than the balance at the yearend. See note 31.5 (b).
Loans	
• Guide 3 III.a requires the tables with loans classified separately by loan category • Regulation S- X 9 –03.7 (e) requires the tables with loans to insiders. See note 31.5 (c)	• On the contrary, it is not required a separate classification by loan category. • Bank of Italy requires similar information (see Financial Statements-Assets, Table 1.2.BI) See note 31.5. (c).
U.S. GAAP	***Italian GAAP***

Allowance for loan losses and impairment	
This section contains two tables, which are required by FAS 114, amended by FAS 118. See note 31.5 (d).	This information is contained in tables, which have got quite similar categories. See note 31.5 (d).
Other assets	
According S-X 210.9-03, the table discloses, separately on the balance sheet, other assets which exceeds 30% of stockholders equity. See note 31.5 (e).	It does not require the limit of 30% of stockholders equity. See note 31.5 (e).
Other Shareholdings of the Group	
The table is required by APB 18. See note 31.5 (f).	This information is not mandatory. See note 31.5. (f)

LIABILITIES & COMMITMENTS	
Securities Sold under Repurchase Agreements	
The table in required by S-X 4-08 (m). See note 31.5 (g).	It is not necessary to provide information other than the balance at the yearend. See note 31.5 (g).
Short-term borrowings	
The table is required by the Guide I.G.VII, but the information should be provided only if the average balance outstanding during the period is more than 30% of stockholders equity at the end of the period. See note 31.5 (h).	This information is not required. See note 31.5 (h).
Deposits	
The table is required by the rule Guide 3, V. See note 31.5 (i)	It is not necessary to provide the average balances, but only the yearend balance. See note 31.5 (i).

U.S. GAAP	*Italian GAAP*
Income taxes	
The tables are required by FAS 109.of this section. See note 31.5 (j).	The amount of deferred taxes is shown in the notes to consolidated financial statements See note 31.5 (j).
Other liabilities	
According to S-X 210.9-03 15, the table contains other assets, which are more than 30% of stockholders equity. See note 31.5 (k)	It does not require the limit of 30% of stockholders equity. See note 31.5 (k).
Lease and rental commitments	
FAS13 – 16 requires this table. See note 31.5 (l)	This information is not required. See note 31.5 (l).
Pension plans	
FAS 87 requires this table. See note 31.5 (m)	This information is not required. See note 31.5 (m)

OTHER INFORMATION	
Financial Derivatives Instruments	
FAS119 -8 and 37 requires the tables contained in this section. See note 31.5 (n).	This information is not mandatory. See note 31.5 (n).

U.S. GAAP	*Italian GAAP*
Fair value of financial instruments	
FAS107 – 10 requires disclosure on the fair value of financial instruments for which it is practicable to estimate that value. Fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. See note 31.5 (o).	This information is not mandatory. See note 31.5 (o).
Earnings per Share	
It is calculated in accordance with FAS 128. See note 31.5 (p)	In Italy there is no legal requirement to disclose earnings per share. See note 31.5 (p).
Other expenses	
Regulation S-X .9-0414 requires this table. See note 31.5 (q)	This information is not required. See note 31.5 (q).
Statement of Cash Flows	
FAS 95 require it. See note 31.5 (r).	This information is not mandatory. See note 31.5 (r).
Condensed financial statements of significant consolidated subsidiaries	
Regulation S-X 12-04 requires this information. See note 31.5 (s).	The Italian Civil Code (Art.2429 para.3) requires full consolidated financial statements of subsidiaries, together with a summary of other related companies' financial statements, to be available to shareholders at least 15 days before the Shareholders' Meeting.
Condensed financial statements of unconsolidated subsidiaries	
According to FAS 94 there are only two exceptions not to consolidate subsidiaries: the control is temporary or it is does not rest with the majority owner. See note 31.5 (t).	According to Art.28 d.lgs 87, only those subsidiaries which are banking or financial companies or enterprises whose business is wholly or principally related to such activities (as defined in Article 59, para. 1.c of the Consolidated Banking Law) for the parent company must be consolidated. For this reason insurance companies are not included See note 31.5 (t).

U.S. GAAP	*Italian GAAP*
Use of estimates	
This disclosure is required by SOP 94-6 A.11. See note 31.5 (u).	This information is not required. See note 31.5 (u).
Recent pronouncements	
SEC Staff Accounting Bulletin N° 74 "Disclosure of impact of Recent Accounting Standards Issued but not yet adopted" requires this disclosure. See note 31.5 (w).	This information is not required. See note 31.5 (w).
Stock option plan	
The cost of options awarded to employees should be recognized over the period to which the employee's service relates. Entities have a choice of accounting methods for determining the cost of benefits arising from employee stock compensation plans. They may follow the intrinsic value method (APB 25) or a fair value method (FAS 123). The Group follows APB 125, but it has to give a pro-forma disclosure of net income and earnings per share had FAS 123 been applied. See note 31.5 (z).	There is neither specific accounting principle nor established method. See note 31.5 (z).

(a) Investment Securities

The following tables reflect the book and the fair value of the debt and equity securities portfolio by accounting categories as of December 31, 1999 and 1998.

	1999			
	Book value	Gross unrealized appreciation	Gross unrealized depreciation	Fair value
	(in millions of Euro)			
Italian Government debt securities:				
Trading portfolio	8,557	-	-	8,557
Available for sale securities	833	22	-	855
Held to maturity portfolio	-	-	-	-
Total Italian Government debt securities	9,390	22	-	9,412
Other debt and equity securities:				
Trading portfolio	7,887	4	-	7,891
Available for sale securities	781	7	11	777
Held to maturity portfolio	322	-	26	296
Total other debt and equity securities	8,990	11	37	8,964
Total debt and equity securities	18,380	33	37	18,376

	1998			
	Book value	Gross unrealized appreciation	Gross unrealized depreciation	Fair value
	(in millions of Euro)			
Italian Government debt securities:				
Trading portfolio	14,417	1	-	14,417
Available for sale securities	1,994	71	12	2,052
Held to maturity portfolio	15	-	-	15
Total Italian Government debt securities	16,426	72	12	16,484
Other debt and equity securities:				
Trading portfolio	8,395	15	-	8,410
Available for sale securities	697	32	1	728
Held to maturity portfolio	204	4	30	179
Total other debt and equity securities	9,296	51	31	9,317
Total debt and equity securities	25,722	123	43	25,801

The following table sets forth the maturities and weight average yield of the Group's securities by type and domicile of issuer as of December 31, 1999.

	At December 31, 1999				
	Amount maturing within one year	**Amount maturing between one year and five years**	**Amount maturing between five years and ten years**	**Amount maturing after ten years**	**Total amount**
	(in millions of Euro, except percentages)				
Domestic:					
Government	3,203	5,236	582	369	9,390
Corporate and other securities	290	1,190	484	629	2,593
Equity and other	1,388	-	-	-	1,388
Total domestic	4,881	6,426	1,066	998	13,371
International:					
Government	102	393	424	221	1,140
Corporate and other securities	1,542	1,734	327	211	3,814
Equity and other	55	-	-	-	55
Total international	1,699	2,127	751	432	5,009
Total Securities	6,580	8,553	1,817	1,430	18,380
Total Securities (market value)	6,629	8,568	1,786	1,393	18,376
Weighted average yield (1)	4.58%	4.90%	5.82%	4.83%	4.89%

(1) Based on book values

(b) Securities Purchased under Resale Agreements

Securities purchased under agreement to resell as of December 31, 1999 and 1998 are analyzed below by type of counterparty.

	1999		
	Average maturity date	Weighted average interest rate	Amount outstanding
			(in millions of Euro)
With credit institutions	49 days	2.75%	5,531
With non-credit institutions	73 days	2.80%	1,803
Total			7,334

	1998		
	Average maturity date	Weighted average interest rate	Amount outstanding
			(in millions of Euro)
With credit institutions	22 days	5.26%	8,023
With non-credit institutions	15 days	4.82%	4,956
Total			12,979

The maximum amounts of reverse repurchase agreements outstanding at the end of any month-end were Euro 10,094 million and Euro 20,355 million in 1999 and 1998, respectively. The average amounts outstanding during 1999 and 1998, were Euro 4,411 million and Euro 13,744 million, respectively.

(c) Loans

Total loans by credit classification were as follows:

Net loans (1)	At December31,									
	1995		1996		1997		1998		1999	
	(in millions of Euro, except percentages)									
Mortgages and indusrial loans	32,143	33.46%	32,593	33.12%	31,767	33.02%	50,741	46.14%	37,110	38.93%
Current account overdrafts	11,679	12.16%	10,758	10.93%	10,431	10.84%	9,052	8.23%	9,681	10.16%
Repurchase agreements (2)	5,690	5.92%	8,383	8.52%	9,949	10.34%	12,979	11.80%	7,334	7.69%
Advances with recourse	2,247	2.34%	2,081	2.11%	2,093	2.18%	2,467	2.24%	2,201	2.31%
Import-export loans	2,161	2.25%	2,042	2.08%	2,872	2.98%	1,394	1.27%	1,579	1.66%
Finance leases	1,070	1.11%	1,261	1.28%	954	0.99%	1,341	1.22%	1,695	1.78%
Discounted notes	942	0.98%	1,059	1.08%	994	1.03%	1,212	1.10%	1,089	1.14%
Personal loans	430	0.45%	553	0.56%	448	0.47%	521	0.47%	969	1.02%
Factoring	334	0.35%	343	0.35%	178	0.19%	782	0.71%	721	0.76%
Subordinated loans (2)	86	0.09%	64	0.07%	60	0.06%	26	0.02%	71	0.07%
Other forms of finance	12,625	13.14%	10,595	10.77%	10,920	11.34%	12,386	11.27%	14,594	15.31%
Loans to banks	24,364	25.36%	26,514	26.94%	23,030	23.94%	15,069	13.70%	16,580	17.39%
Non-perfoming loans (2)	2,299	2.39%	2,157	2.19%	2,520	2.62%	2,012	1.83%	1,694	1.78%
Net loans	96,070	100.00	98,403	100.00	96,216	100.00	109,982	100.00	95,318	100.00

(1) Net loans are loans net of any value adjustments and also net of any allowance for possible loan losses. Net loans is the loan amount that appears on the face of the balance sheet.

(2) Includes loans to banks.

Loans to Insiders

In the normal course of business, Sanpaolo IMI Group has made loans at prevailing interest rates and terms to directors or to companies controlled by directors. The aggregate amount of these loans totaled Euro 10 million and Euro 105 million as of December 31, 1999 and 1998, respectively. None of these loans have been restructured, nor were any of these loans charged off during 1999 and 1998.

Loans and guarantees given (table 1.2 B.I)

(millions of Euro)

	12/31/99	12/31/98
Directors	10	105
Statutory Auditors	1	1

The amounts indicated above include loans granted to and guarantees given by the Group to the Directors and Statutory Auditors Euro 0,2 million and to companies and banks identified pursuant to article 136 of the Consolidated Banking Act, Euro 11 million, including the drawdown against credit lines granted to the latter.

(d) Allowance for loan and impairment

The following tables summarize the status of impaired loans as of December 31, 1999 and 1998:

	1999		
	Gross	Reserve (2)	Net
		(millions of Euro)	
Non-performing loans (''Sofferenze'') (1)	4,157	(2,463)	1,694
Problem loans (''Incagli'') (1)	1,545	(496)	1,049
Total impaired loans	5,702	(2,959)	2,743

	1998		
	Gross	Reserve (2)	Net
		(millions of Euro)	
Non-performing loans (''Sofferenze'') (1)	4,525	(2,513)	2,012
Problem loans (''Incagli'') (1)	1,946	(469)	1,477
Total impaired loans	6,471	(2,982)	3,489

(1) The above amounts include principal and default interest.
(2) The reserve includes the Italian GAAP allowance. The reserve for impaired loans is part of the overall allowance for possible loan losses.

The average balance of impaired loans during 1999 and 1998 was Euro 2,937 million and Euro 4,046 million, respectively.

Sanpaolo IMI Group classifies its loans based on Italian regulations and industry practices and on applicable local regulations and industry practices in other countries where the Group does business.

Loan portfolio is divided into six broad categories: (i) *crediti in bonis*, or performing loans, (ii) *crediti incagliati*, or problem loans, (iii) *crediti in sofferenza*, or non-performing loans, (iv) restructured loans, (v) loans being restructured and (vi) loans exposed to country risk. Sanpaolo IMI Group reports these loans to the Bank of Italy in accordance with its regulations.

Non-performing loans include all loans in which the borrower is in insolvency proceedings or loans in which Sanpaolo or any other creditor initiates legal proceedings in respect of the debt of that borrower.

Sanpaolo IMI Group also classifies a loan as non-performing if the borrower is experiencing financial difficulties that are not likely to be temporary and which would warrant the initiation of legal proceedings, even if such proceedings have not yet been initiated. Real estate mortgage loans, which typically require semi-annual installment payments, are generally classified as non-performing by the Group when the borrower fails to pay four installments when due (i.e. it is two years past due on semi-annual installment payments).

Problem loans include all loans in which the borrower is experiencing serious financial difficulties that are likely to be temporary (i.e. can be resolved within a reasonable time). A real estate mortgage loan that requires semi-annual installment payments is generally classified as a problem loan by Sanpaolo IMI Group when the borrower fails to pay three installments when due.

Restructured loans include loans for which a syndicate (or a single bank) reschedules the repayments of principal or re-negotiates the applicable terms at lower-than-market rates.

Loans being restructured include loans for which the borrower has applied for consolidation to a variety of banks within the past 12 months.

Loans exposed to country risk are evaluated under standards set by the Bank of Italy or higher standards and do not include loans guaranteed by entities domiciled in a country that is not considered classified by the Bank of Italy.

The following table sets forth Group's allowance for possible loans losses as of December 1999, 1998 and 1997.

	1997	1998	1999
		(millions of Euro)	
Openings balances	2,333	2,489	3,469
Charge off:			
Reported provision	742	741	664
Value adjustments charged directly to income	287	22	
Total charge off	1,029	763	664
Recoveries:			
Reversal taken to income	(79)	(92)	(159)
Recoveries of value adjustments taken to income	(114)	(68)	(68)
Change in estimated loss on loans	(141)	(94)	(134)
Total recoveries	(334)	(254)	(361)
Net charge off	**695**	**509**	**303**
Other changes:			
Loans closed or cashed out	(744)	(459)	(494)
Acquisitions and dispositions (1)	(51)	670	(23)
Gross up to reflect default interest	256	212	176
Other	-	48	27
Total other	(539)	471	(314)
Ending balances	2,489	3,469	3,458

(1) The balance includes the total adjustments of merged IMI Group as of December 31, 1998 and the total adjustments of deconsolidation of Crediop as of December 31, 1999.

(e) **Other Assets**

The detail of other assets as reported on the regulation S-X format balance sheets as of December 31, 1999 and 1998 is as follows:

	1999	1998
		(millions of Euro)
Other assets:		
Due from tax authorities	1,115	843
Valuation of derivative transactions belonging to complex financial portfolio	9,289	7,185
Amount in transit between branches	605	1,769
Unprocessed transactions	1,104	784
Transactions by foreign branches	133	607
Effect of forward forex, forex swap and cross-currency swap transactions	972	471
Net effect of translating funds from international agencies using current rates, with the exchange risk borne by third parties	89	48
Premiums paid on purchased options	364	175
Tax collection accounts	205	151
Other	2,323	1,406
Accrued income:		
Income from derivative contracts	3,349	2,980
Interest from loans to customers and interest on securities	927	1,451
Other income	159	71
Prepaid expenses	214	866
Goodwill arising on consolidation	7	11
Intangible assets	267	302
Total	21,122	19,120

(f) Other Shareholdings of the Group

The following table presents the other shareholdings of the Group as of December 1999

Name	Registered office	Ownership %	Book value (in millions of Euro)
ACEA S.p.A.	Rome	0.27	6
ADR International Airport South Africa Ltd	South Africa	0.37349	8
Banca Agricola Mantovana S.p.A.	Mantua	9.58	206
Banca d'Italia	Rome	2	55
Banca Mediocredito S.p.A.	Turin	1.11368	4
Banco del Desarrollo S.A.	Chile	15.89	16
Banco Santander Central Hispano S.A.	Spain	1.43	669
Banksiel S.p.A.	Milan	7	3
Banque Nationale de Paris S.A.	France	0.26	90
Beni Stabili S.p.A.	Rome	18.04	102
BIAT S.A.	Tunisia	6.73262	8
Borsa Italiana S.p.A.	Milan	7.5	3
Cassa di Cimpensazione e Garanzia S.p.A.	Rome	9.09	3
Cassa di Risparmio di Firenze S.p.A.	Florence	4.12	35
Cedel International S.A.	Luxembourg	1.32472	3
Compart S.p.A.	Milan	6.98	102
Countrywide Assurance Group Plc	United Kingdom	4.65	25
Efibanca S.p.A.	Rome	6.89	24
Enel S.p.A.	Rome	0.04	20
Elsacom NV	Netherlands	7.61	8
Fata Group S.p.A.	Pianezza	13.16838	3
I. N. A. S.p.A.	Rome	9.2	825
Milano Assicurazioni S.p.A.	Milan	3.2	32
S.M.A. Società Manifesti e Affissioni S.p.A.	Milan	9.14	4
Salvagnini BV	Netherlands	9.43	6
Simest S.p.A.	Rome	3.3072	5
Snia BPD S.p.A.	Milan	1.78	14
The Royal Bank of Scotland Plc	United Kingdom	0.29	50
Tecnost S.p.A.	Ivrea	0.4	107
Unionvita S.p.A.	Rome	15	5
Utet S.p.A.	Turin	17.9	19
Video Networks Ltd	United Kingdom	3.1	6
Others	-	-	38
		Total other investments	2,504

(g) Securities Sold under Repurchase Agreements

The following tables present the securities sold under repurchase agreements as of December 31, 1999 and 1998.

	1999		
	Average maturity date	Weighted average interest rate	Amount outstanding
			(in millions of Euro)
With Central Banks	30 days	3.01%	4,477
With credit institutions	39 days	2.37%	1,249
With non-credit institutions	77 days	2.83%	3,758
Total			9,484

	1998		
	Average maturity date	Weighted average interest rate	Amount outstanding
			(in millions of Euro)
With Central Banks	12 days	4.05%	-
With credit institutions	37 days	5.58%	5,163
With non-credit institutions	30 days	4.90%	8,863
Total			14,026

The maximum amounts of reverse repurchase agreements outstanding at the end of any month-end were Euro 20,256 and Euro 26,649 million 1999 and 1998, respectively. The average amounts outstanding at the end of each month during 1999 and 1998 were Euro 12,521 million and Euro 19,816 million, respectively.

(h) Short-term borrowings

The following information relates to short-term borrowings, which consisted primarily of commercial paper.

	1999	1998
	(in millions of Euro; except percentages)	
Balance at year-end	2,584	1,395
Highest balance at any month-end	2,978	2,868
Average balance for the year	1,881	791
Weighted average interest rate	4.85%	5.71%
Weighted average interest rate at year-end	5.24%	5.89%

(i) Deposits

The following table shows the average balance and average interest rate of Sanpaolo IMI Group's deposits by source and type for the period indicated.

	Year ended Decembre 31,			
	1999		1998	
	Average balance	**Average rate %**	**Average balance**	**Average rate %**
	(in millions of Euro, except percentages)			
Domestic:				
Non-interest bearing demand	84	-	176	-
Interest bearing demand	22,517	0.66	22,528	2.87
Savings	5,224	2.70	3,808	2.15
Time	3,481	0.66	10,341	6.23
Total domestic	31,306	1.00	36,853	3.72
Foreign				
Banks and foreign governments and official institutions	440	3.12	1,417	4.96
Other demand	6,705	2.43	5,878	5.00
Other time and savings	10,879	3.91	10,851	5.99
Total foreign	18,024	3.34	18,146	5.59
Total deposits	49,330	1.85	54,999	4.34

(j) Income taxes

The components of tax assets (liabilities), in accordance with Italian GAAP, are as follows as of December 31, 1999 and 1998:

	1999	1998
	(in millions of Euro)	
Current tax liabilities	759	979
Deferred tax liabilities	270	341
Total current and deferred payable	1,029	1,320
Deferred tax assets	558	558

Tax payable is included in the reserve for taxation in the consolidated Italian GAAP balance sheets. Deferred tax assets are included in other assets for the year ended December 31, 1999 and in accrued income and prepaid expenses for the year ended December 31, 1998.

The current and deferred components of income tax expense, in accordance with Italian GAAP, for the years ended December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
		(in millions of Euro)	
Current income taxes	696	722	249
Net deferred income taxes	(11)	(92)	(179)
Total income taxes	685	630	70

The reconciliation of income tax expense following Italian GAAP and U.S. GAAP for the years ended December 31, 1999, 1998 and 1997 is as follows:

	1999	1998	1997
		(millions of Euro)	
Pre-tax consolidated income reported under Italian GAAP	1,797	1,633	192
Adjustments to conform to U.S. GAAP gross of tax effect	(263)	(510)	271
Pre-tax consolidated income reported under U.S. GAAP	1,534	1,123	463
Income tax reported under Italian GAAP	(685)	(630)	(70)
Adjustments to conform income tax to U.S. GAAP	57	59	(180)
Income tax reported under U.S. GAAP	(628)	(571)	(250)
Net income following U.S. GAAP	906	552	213
Minority Interest	(64)	(27)	(35)
Net Income after minority interest following U.S. GAAP	842	525	178

The income tax expense, as above recorded, for the years ended December 31, 1999, 1998 and 1997 varied from the amount computed by applying the statutory income tax rate to income before taxes.

The reasons for the differences are as follows:

	1999		1998		1997	
	in millions of Euro	%	in millions of Euro	%	in millions of Euro	%
Income taxes reported under U.S. GAAP	628	41.0	571	50.9	250	53.9
Increase (Decrease) in taxes from:						
– Deferred tax benefit arising through payment of substitute tax	-	-	-	-	65	14.1
– Law 461/98	7	0.4	-	-	-	-
– Tax on equity	-	-	-	-	(45)	(9.7)
– Substitute tax charged to equity	-	-	-	-	(7)	(1.6)
– Revenues and expenses with reduced tax rate	13	0.8	(188)	(16.7)	21	4.5
– Change in tax rate	-	-	1	0.1	(3)	(0.7)
– Substitute tax paid to deduct merger-related amortization goodwill	-	-	-	-	(52)	(11.1)
– Tax savings related to intra CEE dividends	64	4.2	79	7.0	26	5.6
– Effect of purchase method	(69)	(4.5)	(17)	(1.5)		
– Other differences	7	0.5	30	2.1	(8)	(1.8)
Income taxes at statutory rate	650	42.4	476	42.4	247	53.2

The reconciliation of deferred tax assets (liabilities) following Italian GAAP and U.S. GAAP for the year ended December 31, 1999 and 1998 is as follows:

	1999	1998
	(in millions of Euro)	
Net deferred tax assets (liabilities) under Italian GAAP	288	217
Net deferred taxes on adjustments to conform to U.S. GAAP	(667)	(608)
Deferred taxes on equity	(346)	(384)
Net deferred tax assets under U.S. GAAP	(725)	(775)

Deferred tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of Sanpaolo IMI Group's deferred assets and deferred tax liabilities under U.S. GAAP are as follows as of December 31, 1999 and 1998:

	1999	1998
	(in millions of Euro)	
Deferred tax assets:		
Allowance for possible loan losses not tax deductible	386	387
Other provisions and allowances not tax deductible	172	171
Tax effect on elimination of revaluation of fixed assets and investments	244	332
Total deferred tax assets	802	890
Deferred tax liabilities:		
Capital gains deferred for fiscal purposes only	16	21
Deferred taxes reserves taxable only in case of distribution	597	608
Tax effect on accounting for securities portfolio made for U.S. GAAP	141	80
Tax effect on purchase accounting adjustments made for U.S. GAAP	706	799
Other	67	157
Total deferred tax liabilities	1,527	1,665
Net deferred tax liabilities	725	775

(k) Other Liabilities

The detail of other liabilities as reported on the regulation S-X format balance sheets as of December 31, 1999 and 1998 is as follows:

	1999	1998
	(millions of Euro)	
Other liabilities:		
Valuation of forward forex and derivative transactions belonging to complex	9,676	6,896
Items relating to securities transactions	23	1,212
Amount available for third parties	1,134	1,164
Amounts in transit with branches(1)	584	591
Unprocessed transactions	1,462	2,012
Due to the tax authorities	276	192
Transactions involving foreign branches	324	742
Amount due to employees	300	257
Other	1,965	1,643
Accrued expenses:		
Charges on derivative contracts (2)	3,266	3,096
Interest on securities issued	1,188	1,721
Other	373	418
Deferred income	327	371
Provisions for termination indemnities	438	436
Provision for risks and charges	1,483	1,805
Total	22,819	22,556

(1) Amounts in transit with branches have been largely allocated at the beginning of 2000

(2) Accrued expense relating to derivative contracts are recorded on a contract-by-contract basis with reference to the interest rates prevailing at the time.

(l) Lease and rental commitments

The Group has entered into a number of noncancelable operating lease agreements for premises and equipment. The minimum annual rental commitments under these leases, as of December 31, 1999, are as follows:

	(in million of Euro)
2000	73
2001	70
2002	65
2003	62
2004	59
2005	55
2006	48
2007	41
2008 and thereafter	122
	595

Total rental expense for 1999, 1998, and 1997, including cancelable and noncancelable leases, amounted to Euro 95 million, Euro 88 million and Euro 92 million, respectively.

(m) Pension plans

Cassa di Previdenza

Until December 31, 1990, all employees of the Bank were entitled to retirement benefits from the Cassa di Previdenza, a private pension plan funded by the Bank and by the Bank's employees. From December 31, 1990, the Bank and its employees began to make certain contributions to the Istituto Nazionale per la Previdenza Sociale (''INPS''), the state-run pension plan, which provides a flow of income to employees upon retirement. In accordance with the Amato Law, the Bank and the employees of the Bank have made no further contributions into the Cassa di Previdenza after December 31, 1990. From that time those employees who where employed by the Bank as of that date became entitled to receive from the Cassa di Previdenza supplemental benefits which, when added to the payment from INPS, provide such employees with equivalent retirement coverage as was extended to them under the Cassa di Previdenza scheme prior to December 31, 1990.

Independent actuarial experts have concluded that the Cassa di Previdenza will be able to satisfy its obligation to provide such supplemental benefits to such employees based on certain assumptions predicted on, among other things, a historical analysis of the age and years of service of retiring employees, inflation rates, the past yield on Cassa di Previdenza's investments and other factors.

The Cassa di Previdenza is managed by a Board of Directors consisting of 12 directors. The Bank and the employees each appoint 6 of the directors, and the Bank appoints the Chairman of the Board.

The Bank is contingently liable in the future if the assets of the plan were to be insufficient to fund the future benefit payments to the plan participants. As such, the Bank has provided Euro 87.5 million in prior years to cover any deficiency between plan assets and fair value and the projected benefit obligation. This liability is included in Other Liabilities in the consolidated balance sheets.

The components of the funded status of the Cassa di Previdenza plan as of December 31, 1999 and 1998 computed following Italian GAAP, are as follows:

	1999	**1998**
	(in millions of Euro)	
Projected benefit obligation (PBO)	978	964
Plan assets at fair value	875	925
Excess PBO over plan assets at fair value	103	39
Amount accrued by the Bank	99	93
Net deficit PBO	(4)	54

Assets of the Cassa di Previdenza are invested in securities and investment properties; as explained above,the assets are owned directly by Cassa di Previdenza, which is a separate legal entity in respect of the Bank; any excess of assets in respect of the PBO will be retained by the Cassa di Previdenza.

Referring to Cassa di Previdenza's pension plan the results under US GAAP computation are the following, as of December 31, 1999 and 1998:

	1999	**1998**
	(in millions of Euro)	
Accumulated benefit obligation determined following U.S.	(762)	(750)
Plan assets of Cassa di Previdenza at fair value	875	925
Excess of plan assets at fair value	113	175

In addition to assets available for payment of pensions Sanpaolo IMI Group has accrued amounts reflecting its contingent liability to the plan. As no shortfall in plan assets is estimated, the liability accrued by Sanpaolo IMI for pension plan has been reversed under US GAAP. Since the plan assets are owned directly by Cassa di Previdenza, the excess of plan assets at fair value respect to the ABO has not been take into the consideration.

Fondo Pensione del Gruppo Sanpaolo IMI

In addition to the Cassa di Previdenza, the Group also created Fondo Pensione del Gruppo Sanpaolo IMI, a defined contribution plan covering all employees of the Bank. The Bank and the employees of the Bank make tax-deductible contributions into the Fondo Pensione del Gruppo Sanpaolo IMI.

(n) Financial Derivative Instruments with Off-Balance Sheet Risk

In the normal course of business, Sanpaolo IMI Group enters into a number of off-balance sheet commitments. These instruments expose Sanpaolo IMI Group to varying degrees of credit and market risk and are subject to the same credit and risk limitation reviews as those recorded on the balance sheet. The following is a description of these instruments.

Off-balance sheet financial instruments

Sanpaolo IMI Group uses a variety of derivative financial instruments in its trading and asset and liability management activities. These instruments offer customer protection from rising or falling interest rates, exchange rates and equity prices. They can either increase or reduce the Group's exposure to such fluctuation in rates or prices.

Following is a brief description of such derivative financial instruments.

Swap contracts

Interest rate swap contracts generally represent the contractual exchange of fixed and floating rate payments of a single currency, based on a notional amount and an interest reference rate.

Cross currency interest rate swap contracts generally involve the exchange of payments which are based on the interest reference rates available at the inception of the contract on two different currency principal balances that are exchanged. The principal balances are re-exchanged at an agreed rate at a specified future date.

Interest rate and cross currency interest rate swap contracts entered into for trading purposes are reported at their fair market value. Interest payments made or received under such swap contracts are reported as trading revenue, except for contracts specifically related to securities (asset swaps) which are included in the net interest income. Unrealized gains and losses are reported as other liabilities or other assets, respectively.

Interest rate and cross currency interest rate swap contracts entered into for asset and liability management purposes are reported on an amortized cost basis. Related interest payments or receipts are reported on a net basis, offsetting the recorded interest revenue or expense of the asset or liability being hedged. Once designated as a hedge it is not the Group's practice to dispose or liquidate the hedged asset or liability. However. if a swap is terminated early, any resulting gain or loss is deferred and amortized as an adjustment of the yield on the underlying interest rate exposure position over the remaining periods originally covered by the terminated swap. In circumstances where the underlying assets or liabilities are sold, any remaining gain or loss and the cumulative change in value of any open positions are recognized immediately as a component of the gain or loss on disposition of such underlying assets and liabilities.

Equity swap contracts typically involve the payment of an amount equal to the total return of an Italian or international equity index, basket of equities or an individual equity over a fixed time period, in exchange for a floating interest rate, both based upon the same notional amount.

Equity swap contracts are entered into for trading purposes only and are reported at their fair market value. Interest payments made or received under such swap contracts are reported as trading revenue. Dividends received (plus the withholding tax according to current Italian legislation) are recorded as trading revenue. Unrealized gains and losses are reported as other liabilities or other assets, respectively.

Futures and forward

Future and forward contracts represent commitments to purchase or sell securities, money market instruments or foreign currencies at a future date and a specified price. Future contracts are regulated on Italian and international exchanges. Sanpaolo IMI Group intends to close out most open positions in futures contracts prior to maturity; therefore future cash receipts or payments are generally limited to the change in fair value of the underlying instruments. Since futures contracts generally entail daily net cash margin with regulated exchanges, the credit risk is generally minimized to one-day receivable. Included in this category of contracts are spot foreign currency contracts, cash settled index contracts and forward rate agreements. Future and forward contracts entered into for trading purposes are reported at their fair market value. Unrealized gains and losses are reported as other liabilities or other assets, respectively. Differentials paid or received under such contracts are included in the net interest income if relating to contracts where the maturity of the underlying assets is less than one year (such as forward rate agreements) or non interest income if relating to contracts where the maturity of the underlying assets is more than one year (such as bond futures).

In the case of futures and forward contracts entered into for asset and liability management purposes, they are reported on an amortized cost basis. Related differentials paid or received are reported on a net basis offsetting the recorded interest revenue or expense of the asset or liability being hedged. In the case of disposition or liquidation of the hedged asset or liability, the rules above indicated for swap contracts are consistently followed.

Options

Options contracts are either deliverable or cash-settled. Deliverable contracts convey to the purchaser (holder) the right to buy (call) or sell (put) securities, money market instruments or foreign currencies at or before a specified date for a contracted price from the seller (writer) of the contract. Cash-settled contracts convey to the purchaser the right to the monetary equivalent of the increase (call) or decrease (put) or a percentage thereof in a specified reference rate or index, computed on a notional amount, from the writer. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than notional amount. Included in these contracts are: (1) interest rate caps, floors and collars, which are agreements to make periodic payments for interest rate differentials between an agreed upon interest rate and a reference rate and (2) purchased options to enter into future (or cancel existing) interest rate swap contracts (swaptions).

Option contracts entered into for trading purposes are reported at their fair market value. Premiums paid or collected and unrealized gains or losses are reported as other assets or other liabilities against non-interest income, respectively.

Option contracts entered into for asset and liability management purposes are reported on an amortized cost basis. In the case of disposition or liquidation of the hedged asset or liability, the rules above indicated for swap contracts are consistently followed.

The following table represents, as of December 31, 1999 and 1998 the gross notional or contractual amounts of outstanding derivative financial instruments used in certain activities. These amounts do not represent the market or credit risk associated with these instruments, but instead indicate the volume of transactions. The amounts greatly exceed the associated credit risk of these instruments and do not reflect the netting of offsetting transactions.

(in millions of Euro)

	1999		1998	
	Notional Principal		Notional Principal	
	Trading	Other than trading	Trading	Other than trading
Interest Rate Derivatives				
Interest rate swaps	148,506	18,702	142,464	27,030
Cross currency interest swaps	-	-	-	-
Forward rate agreements	2,405	616	7,288	1,593
Interest rate options	40,306	2,239	51,371	7,718
Interest rate futures	6,633	-	29,522	1
Total interest rate derivatives	*197,850*	*21,557*	*230,645*	*36,342*
Foreign Currency Derivatives				
Forward operations	4,940	16,863	2,664	38,311
Cross currency swaps	3,028	4,730	6,430	11,012
Foreign currency options	1,734	569	2,360	5
Total foreign currency derivatives	*9,702*	*22,162*	*11,454*	*49,328*
Stock Index Derivatives and other Derivative Products				
Options	6,256	4,596	8,388	3,379
Swaps	-	-	1,234	-
Futures	1,505	2	1,002	-
Forward operations	476	-	248	-
Total stock index derivatives and other derivative products	*8,237*	*4,598*	*10,872*	*3,379*
Grand total	**215,789**	**48,317**	**252,971**	**89,049**

The notional amounts of Over-the-Counter derivative financial instruments at December 31, 1999, by contractual maturity, are shown below:

(in millions of Euro)

	Up to twelve months	Between one and five years	Between five and ten years	Beyond ten years	Total
Interest rate related	55,351	86,986	31,862	14,728	188,927
Exchange rate related	26,047	4,496	310	201	31,054
Equity related	3,054	5,468	1,337	-	9,859
Other	-	207	-	-	207

The notional amounts of Over-the-Counter derivative financial instruments at December 31, 1998, by contractual maturity, are shown below:

(in millions of Euro)

	Up to twelve months	Between one and five years	Between five and ten years	Beyond ten years	Total
Interest rate related	90,388	92,982	43,009	-	226,379
Exchange rate related	49,504	9,847	1,429	-	60,780
Equity related	5,817	2,496	639	-	8,952
Other	-	207	-	-	207

To varying degrees, credit risk and market risk are inherent in derivative transactions.

Credit risk is the risk that a counterparty to a derivative financial instrument with Sanpaolo IMI Group will fail to perform according to the terms and conditions of the contract and cause Sanpaolo IMI to suffer a loss. The risk arises from the Group's trading and risk management activities in Over-the-Counter derivative financial instruments.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices and other rates, prices, volatilities, correlations or other market conditions, such as liquidity, will have an adverse impact on Sanpaolo IMI Group's financial condition or results. Market risk arises both from Sanpaolo IMI Group's trading and risk management activities.

Credit and market risk arising from derivative financial instruments are described in the following paragraphs.

Credit exposure resulting from derivative financial instruments

Notional amounts shown above are a measure of the volume of agreements transacted, but the level of credit exposure is significantly less. The amount of credit exposure can be estimated by calculating the replacement cost on a present value basis and at current market rates of all profitable contracts outstanding at year-end. Credit exposure disclosures relate to accounting losses that would be recognized if the counterparties completely failed to perform their obligations. Sanpaolo IMI Group manages credit risk by limiting the total amount of arrangements outstanding by individual counterparty, monitoring the size and maturity structure of the portfolio, obtaining collateral based on management' s credit assessment of the counterparty and by applying uniform credit standards maintained for all activities with credit risk.

In addition, Sanpaolo IMI Group enters into master netting agreements which incorporate the right of set-off to provide for the net settlement of covered contracts with the same counterparty in the event of default or other termination of the agreement.

In order to monitor and manage the credit risk arising from foreign exchange and interest rate derivative activities more accurately, Sanpaolo IMI Group (based on Bank of Italy guidelines) has adopted and implemented a "mark-to-market plus add-on" approach to calculating credit exposure amounts for such activities. While the positive mark-to-market value represents the current credit risk, the add-on amount resulting from the product of nominal amount and the appropriate percentage, weighted according to the period to maturity, allows for the effect of potentially increased exposure due to future rate movements.

The table below summarizes the credit exposure for derivative financial instruments at December 31, 1999 and 1998.

	(in millions of Euro)	
	1999	**1998**
Interest rate contracts		
- *trading*	*4,612*	*7,303*
- *non trading*	*456*	*832*
Foreign exchange contracts		
- *trading*	*277*	*216*
- *non trading*	*925*	*926*
Equity-related contracts		
- *trading*	*663*	*79*
- *non trading*	*358*	*148*
Total current credit exposure	**7,291**	**9,504**
Potential credit exposure (Add-on)	2,248	2,744
Credit risk equivalent	**9,539**	**12,248**

As of December 31, 1999 the credit risk of Over–the-Counter derivative contracts, by splitting current credit exposure, add-on and the credit risk equivalent by counterparty, can be summarized as follows:

(in millions of Euro)

	1999		
	Current credit exposure	**Add - on**	**Credit risk Equivalent**
Governments and central banks	34	22	56
Banks	5,821	1,738	7,559
Other	1,436	488	1,924
Total	**7,291**	**2,248**	**9,539**

As of December 31, 1998 the credit risk of Over–the-Counter derivative contracts, by splitting current credit exposure, add-on and the credit risk equivalent by counterparty, can be summarized as follows:

(in millions of Euro)

	1998		
	Current credit exposure	**Add - on**	**Credit risk Equivalent**
Governments and central banks	12	11	23
Banks	7,468	2,119	9,587
Other	2,025	613	2,638
Total	**9,505**	**2,743**	**12,248**

Of the total current credit exposure indicated above, a part is already recorded in the consolidated financial statements and is represented by valuation of trading derivatives, effect of currency hedges, forex swaps and cross-currency swaps, accrued income from derivatives contracts.

The above amounts disregard any master netting agreements. Considering the effect of master netting agreements, the current credit exposure at December 31, 1999 is reduced by Euro 1,561 million.

No credit losses were incurred during 1999 and 1998 and there are no outstanding derivatives contracts expired and unsettled.

Derivative financial instruments held or issued for trading activities

The following table shows, as of December 31, 1999, the gross notional amount of outstanding derivative financial instruments held or issued for trading activities segregated by Over-the-Counter and exchange traded contracts:

(notional amounts in millions of Euro)

	Interest Rate Derivatives	Foreign Currency Derivatives	Stock Index Derivatives	Total
OTC trading contracts:				
- Forward operations	2,405	4,940	476	7,821
- Interest and currency swaps	148,506	3,028	-	151,534
- Options purchased	14,448	868	3,340	18,656
- Options sold	16,274	866	1,940	19,080
Total OTC trading contracts	**181,633**	**9,702**	**5,756**	**197,091**
Exchange traded contracts				
- Futures purchased	5,143	-	872	6,015
- Futures sold	1,490	-	633	2,123
- Options purchased	3,907	-	450	4,357
- Options sold	5,677	-	526	6,203
Total exchange traded contracts	**16,217**	**-**	**2,481**	**18,698**
Total trading contracts	**197,850**	**9,702**	**8,237**	**215,789**

The average fair values of trading derivatives in 1999 were Euro 7,230 million of trading assets and Euro 5,843 million of trading liabilities.

As of December 31, 1999 OTC gross positive and negative fair values of derivative financial instruments were Euro 7,291 million and Euro 5,957 million respectively. As of December 31, 1998 OTC gross positive and negative fair value of derivative financial instruments were Euro 9,504 million and Euro 16,172 million, respectively.

All of the Group's trading positions are currently stated at market value with realized and unrealized gains and losses reflected in other income. Sanpaolo IMI Group recognized trading revenue of Euro 667, Euro (145) million and Euro 223 million in 1999, 1998 and 1997, respectively. Trading revenue is composed of gains and losses resulting from trading positions taken by Sanpaolo IMI Group in interest rate contracts, foreign exchange contracts and equity-related contracts.

The results of the Group's trading activities are summarized by product diversification in the following table.

(in millions of Euro)

	1999	1998	1997
Interest rate contracts	858	(175)	146
Foreign exchange contracts	26	(160)	50
Equity-related contracts	(216)	191	27
Other Derivatives	-	-	-
Total	**668**	**(144)**	**223**

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Derivative financial instruments held or issued for Asset and Liability Management Activities

Sanpaolo IMI Group's principal objective in holding or issuing derivatives for purposes other than trading is risk management. The operations of Sanpaolo IMI Group are subject to a risk of interest-rate fluctuations to the extent that there is a difference between Sanpaolo IMI Group's interest-earning assets and the amount of interest-bearing liabilities that mature or reprise in specified periods. In addition, the Group's operations are also subject to foreign exchange risk to the extent that downward trends in foreign exchange rates may impact open positions denominated in foreign currencies. To achieve its risk management objective, Sanpaolo IMI Group uses a combination of interest rate and foreign exchange instruments.

(o) Fair value of financial instruments

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using the present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, Sanpaolo IMI Group's fair values should not be compared to those of other financial institutions.

Fair value estimates are based on existing financial instruments without attempting to estimate the fair value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not purport to represent the underlying market value of Sanpaolo IMI Group.

The following describes the methods and assumptions used by the Group in estimating the fair values of financial instruments:

Securities

Fair values are based primarily on quoted market prices.

Loans

The fair value of loans is based upon type of loan, credit quality, and maturity. The fair value of loans with no stated maturity, which are performing in accordance with contractual terms is considered to be equal to the carrying amount. The fair value of medium and long-term loans with fixed or floating rates is estimated by discounting contractual cash flows using current interest rates curves plus an additional adjustment to reflect the credit risk, estimated for group of similar loans. The potential impact of early repayments relating to mortgage loans is not considered in the estimates. For non-performing loans, management attempted to estimate the amount and timing of future cash flows. These estimated future cash flows were then discounted at current market rates plus a spread in order to reflect the uncertainty of future cash flows.

Deposits and short-term borrowings

The fair value of deposits with no fixed maturity or a maturity of less than 90 days is considered to be equal to the carrying amount. The fair value of time deposits is estimated by discounting contractual cash flows using interest rates currently offered on the deposit products. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding.

Long-term debt

The fair value long-term debt, including the short-term portion, is estimated based on quoted market prices for the issues for which there is a market or by discounting cash flows based on current interest rate curves available.

Off-balance sheet financial instruments

Fair values for off-balance sheet financial instruments are estimated based on quoted market prices or dealer quotes and are the amounts Sanpaolo IMI Group would receive or pay to execute a new agreement with identical terms considering current interest rates.

The carrying values and the estimated fair values of Sanpaolo IMI Group's financial instruments as of December 31, 1999 and 1998 are as follows:

	1999		1998	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
	(in millions of Euro)		(in millions of Euro)	
Financial assets:				
Trading and investment securities	18,380	18,376	25,722	25,802
Loans, net	78,880	81,503	84,697	90,853
Financial liabilities:				
Deposits and short-term borrowing	61,354	61,384	51,528	51,880
Medium and long-term debt	37,655	38,388	61,118	63,809
Off-balance sheet financial instruments: (see Note 16)				
Off-balance sheet hedging financial instruments	-	(149)	-	(623)

(p) Earnings per Share

The computation of basic and diluted earning per share for the years ended December 31, 1999, 1998 and1997 is presented in the following table.

	1999	1998	1997
	(in millions of Euro, except share and per share data)		
Numerator for basic and diluted earnings per share:			
Income available to common stockholders (Italian GAAP)	1,050	909	87
Income available to common stockholders (U.S. GAAP)	842	525	178
Denominator for basic earning per share:			
Weighted-average shares (Italian GAAP)	1,396,489,095	1,401,830,448	815,992,852
Weighted-average shares (U.S. GAAP)	1,396,489,095	963,656,027	815,992,852
Denominator for diluted earning per share:			
Weighted-average shares (Italian GAAP)	1,396,702,369	1,401,830,448	815,992,852
Weighted-average shares (U.S. GAAP)	1,396,702,369	963,656,027	815,992,852
Italian GAAP			
Basic earnings per share (in Euro)	0.75	0.65	0.11
Diluted earnings per share (in Euro)	0.75	0.65	0.11
US GAAP			
Basic earnings per share (in Euro)	0.60	0.55	0.22
Diluted earnings per share (in Euro)	0.60	0.55	0.22

(q) Other Expenses

The detail of other expense that represents 1% or more of the aggregate interest and other income as of December 31, 1999, 1998 and 1997 is as follows:

(in millions of Euro)

	1999	1998	1997
Indirect Duties and Taxes	169	172	238
Commissions and fees	530	479	181
Other	792	878	538
Total	1,491	1,529	957

(r) Statements of Cash Flows

The following consolidated statements of cash flows are presented in connection with SFAS No. 95.

	1999	1998	1997
		(in millions of Euro)	
Cash Flows from Operating Activities			
Net income after minority interest	1,050	909	87
Adjustment to reconcile net income to cash provided by operating activities:			
Amortization and depreciation	265	266	247
Net realized (gain) on sale of securities	76	(95)	(356)
Net realized loss (gain) on sale of tangible fixed assets	(2)	(6)	1
Net realized (gain) on sale of investments in affiliated and other companies	(349)	(26)	(14)
Net unrealized loss (gain) on valuation of securities	(145)	19	18
Net unrealized loss (gain) on valuation of fixed assets			34
Net unrealized loss on valuation of investments in affiliated and other companies	75	41	3
Net loss (gain) from investments carried at equity	(118)	(82)	106
(Increase) in other assets	(4,153)	(4,490)	(941)
Increase in other liabilities	1,130	4,966	746
Net realized (gain) loss on translation adjustment and other changes		(49)	(289)
Taxes paid using capital reserve		(45)	(52)
Net cash provided by operating activities	(2,171)	1,408	(410)
Cash Flows from Investing Activities			
Effect of merger between San Paolo and IMI		(6,965)	-
Purchase of tangible fixed assets	(197)	(186)	(84)
Proceeds from sale of tangible fixed assets	12	103	65
Purchase of investments in affiliated companies	(152)	(33)	(31)
Proceeds from sale of investments in affiliated conmpanies	219	12	20
Purchase of investments in other companies	(2,002)	(230)	(83)
Proceeds from sale of investments in other conmpanies	584	120	217
Purchase of securities	(380,910)	(472,226)	(326,671)
Proceeds from sale and redemption of securities	387,703	474,744	328,417
Decrease (increase) in interest-bearing deposits	(3,050)	8,802	3,744
Decrease (Increase) in federal funds sold and reverse repo's	5,183	(3,031)	(1,566)
Net decrease (increase) in loans, net	(2,025)	(19,537)	10
Net cash provided by investing activities	5,365	(18,427)	4,038
Cash Flows from Financing Activities			
(Decrease) increase in deposits, net	5,049	(16,305)	(1,676)
(Decrease) increase in short-term borrowing, net	1,189	518	(226)
(Decrease) increase in repurchase agreements, net	(4,487)	1,536	(709)
Net increase (decrease) in long-term debt	(4,280)	31,193	(1,128)
Dividends paid	(652)	(46)	(118)
Other changes of shareholders 'equity'	(302)		
Increase (decrease) of minority interest	394	151	212
Net cash (used in) provided by financial activities	(3,089)	17,047	(3,645)
Net (decrease) increase in cash and cash equivalents	105	28	(16)
Cash and Cash Equivalents, beginning of year	421	393	409
Cash and Cash Equivalents, end of year	526	421	393
Supplemental Information			
Taxes paid	854	396	462
Interest paid	4,258	8,026	13,432

Cash and cash equivalents primarily consist of cash on hand, cash at post offices and amounts due from the Central bank of Italy.

The following changes affected the scope of line-by-line consolidation as of December 31, 1999 as compared to December 31, 1998:

- exclusion of Crediop (and its subsidiaries, CrediopBV, Crediop Overseas Bank and C. Fin.) as the Group no longer holds a controlling interest, following the disposal of a 20% interest.
- exclusion of Imigest Immobiliare (and its subsidiaries Tradital and Immobiliare Italia Gestioni) as this company forms part of the real estate sector which Sanpaolo IMI has spun off.

The condensed financial statements as of December 31, 1998 were as follow:

(in millions of Euro)

ASSETS	Loans	Securities	Investments	Other assets	Total
Crediop Overseas Bank S.p.A.	3,127	-	-	170	3,297
Crediop S.p.A.	15,013	1,817	101	882	17,813
Imigest Immobiliare S.p.A.	43	-	52	51	146

(in millions of Euro)

LIABILITIES AND STOCKHOLDRS' EQUITY	Payables	Other liabilities	Subordinated loans	Stockholders' Equity	Total
Crediop Overseas Bank S.p.A.	3,076	170	-	51	3,297
Crediop S.p.A.	16,060	1,090	130	533	17,813
Imigest Immobiliare S.p.A.	88	14	-	44	146

(in millions of Euro)

INCOME STATEMENT	Operating income	Extraordinary income	Net Income (Loss)
Crediop Overseas Bank S.p.A.	4	-	4
Crediop S.p.A.	80	37	54
Imigest Immobiliare S.p.A.	(6)	3	(4)

(s) Condensed financial statements of significant consolidated subsidiaries

The condensed financial statements of the significant companies consolidated line by line as of December 31, 1999 are as follow:

(in millions of Euro)

ASSETS	Loans	Securities	Investments	Other assets	Total
Banca d'Intermediazione Mobiliare IMI Spa ……….	5,359	7,546	291	6,719	19,915
Banca Fideuram Spa ……………………...……….	2,749	550	321	251	3,871
Banca IMI Securities Corporation…………………..	90	106	-	29	225
Banque Sanpaolo SA ………………………………..	4,061	867	32	315	5,275
Fideuram Bank S.A. ..………………………………..	1,039	10	-	14	1,063
Finconsumo Spa …………………………………..	352	-	1	14	367
Fonditalia Management Company SA ………………	134	-	-	22	156
IMI Bank (Lux) SA ………………………………….	588	892	5	263	1,748
IMI Capital Markets USA Corp …………………….	1	34	149	5	189
IMI International SA ……………………………….	170	42	442	1	655
IMI Investments SA ………………………………….	-	17	133	-	150
IMI Lease Spa ……………………………………….	256	1	1	27	285
LDV Holding BV……………………………………	39	-	81	2	122
NHS………………………………………………..	209	181	428	7	825
Sanpaolo IMI Bank Ireland Plc ..…..…………….……	616	269	-	18	903
IMI Sigeco (UK) Ltd ………………………………..	83	-	-	1	84
Sanpaolo Bank SA ..……...…………………………..	2,593	452	7	107	3,159
Sanpaolo IMI Asset Management Spa ………………	120	33	1	256	410
Sanpaolo IMI US Financial Corporation Spa ……….	1,566	-	-	16	1,582
Sanpaolo IMI Bank International SA ..….……………	4,393	-	-	272	4,665
Sanpaolo Invest SIM Spa ..……...……………………	82	9	-	74	165
Sanpaolo Leasint Spa ..………………………………..	1,419	66	1	260	1,746
Sanpaolo Riscossioni Genova Spa ..……..…………..	2	-	-	171	173

(millions of Euro)

LIABILITIES AND STOCKHOLDERS' EQUITY	Payables	Other liabilities	Subordinated loans	Stockholders'Equity	Total
Banca d'Intermediazione Mobiliare IMI Spa ……….	(12,827)	(413)	33,340	(185)	19,915
Banca Fideuram Spa ………………………....………	(2,802)	(397)	7,271	(200)	3,872
Banca IMI Securities Corporation…………………..	(49)	(146)	420	-	225
Banque Sanpaolo SA ………………………………..	(4,627)	(378)	10,280	-	5,275
Fideuram Bank S.A. ...………………………………..	(1,009)	(20)	2,102	(10)	1,063
Finconsumo Spa ……………………………………...	(333)	(13)	714	-	368
Fonditalia Management Company SA ………………	-	(10)	166	-	156
IMI Bank (Lux) SA …………………………………..	(1,339)	(82)	3,204	(35)	1,748
IMI Capital Markets USA Corp ……………………..	(29)	(148)	365	-	188
IMI International SA ……………………………..	(50)	(564)	1,269	-	655
IMI Investments SA …………………………………..	-	(150)	301	-	151
IMI Lease Spa ………………………………………..	(39)	(226)	550	-	285
LDV Holding BV…………………………………….	(15)	(87)	225	-	123
NHS…………………………………………………	(25)	(735)	1,586	-	826
Sanpaolo IMI Bank Ireland Plc ...…..…………..……...	(446)	(405)	1,756	-	905
IMI Sigeco (UK) Ltd ………………………………..	(199)	(654)	-	(19,358)	(20,211)
Sanpaolo Bank SA ...……...…………………………..	(3,065)	(36)	6,259	-	3,158
Sanpaolo IMI Asset Management Spa …………………….	(1)	(33)	443	-	409
Sanpaolo IMI US Financial Corporation Spa …………….	(1,566)	-	3,147	-	1,581
Sanpaolo IMI Bank International SA ...…..……………..…	(4,216)	(189)	9,070	-	4,665
Sanpaolo Invest SIM Spa ...……...……………………….	-	(37)	203	-	166
Sanpaolo Leasint Spa ...………………………………..	(1,491)	(51)	3,287	-	1,745
Sanpaolo Riscossioni Genova Spa ...……...…………..	(67)	(3)	243	-	173

(millions of Euro)

INCOME STATEMENT	Operating Income	Extraordinary Income	Net Income (Loss)
Banca d'Intermediazione Mobiliare IMI Spa	95	1	64
Banca Fideuram Spa	87	5	96
Banca IMI Securities Corporation......................	4	-	4
Banque Sanpaolo SA	52	3	49
Fideuram Bank S.A.	16	-	10
Finconsumo Spa	8	-	4
Fonditalia Management Company SA	131	-	131
IMI Bank (Lux) SA	4	3	5
IMI Capital Markets USA Corp	1	-	1
IMI International SA	35	1	32
IMI Investments SA	1	-	-
IMI Lease Spa	6	-	7
LDV Holding BV...	20	-	19
NHS...	30	3	21
Sanpaolo IMI Bank Ireland Plc	24	-	22
IMI Sigeco (UK) Ltd	24	1	14
Sanpaolo Bank SA	45	-	25
Sanpaolo IMI Asset Management Spa	1,303	354	1,018
Sanpaolo IMI US Financial Corporation Spa	-	-	-
Sanpaolo IMI Bank International SA	8	(4)	5
Sanpaolo Invest SIM Spa	26	1	21
Sanpaolo Leasint Spa	19	(4)	8
Sanpaolo Riscossioni Genova Spa	7	-	3

(t) Condensed financial statements of unconsolidated subsidiaries

The condensed financial statements of the significant unconsolidated companies line by line of December 31, 1999 are as follow:

(millions of Euro)

ASSETS	Loans	Securities	Investments	Other assets	Total
Sanpaolo Vita SpA and Sanpaolo Life	19	2.207	5	2.883	5.114
Fideuram Vita Spa	355	4.198	-	930	5.483
Fideuram Assicurazioni Spa	3	20	1	38	62

LIABILITIES AND STOCKHOLDERS' EQUITY	Payables	Other liabilities	Subordinated loans	Stockholders' Equity	Total
Sanpaolo Vita SpA and Sanpaolo Life	2	4.989	-	123	5.114
Fideuram Vita Spa	19	5.171		293	5.482
Fideuram Assicurazioni Spa	-	52	-	10	62

INCOME STATEMENT	Operating Income	Extraordinary Income	Net Income (Loss)
Sanpaolo Vita SpA and Sanpaolo Life	41	-	26
Fideuram Vita Spa	(10)	72	53
Fideuram Assicurazioni Spa	3	-	2

(u) Use of estimates

The preparation financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those assumed in management's estimates.

(v) Recent pronouncements

In June 1998 the FASB issued SFAS 133 "*Accounting for Derivative Instruments and Hedging Activities*" which is of application for fiscal years beginning after December 15, 2000.

This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at faire value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

(w) Information about Spin-off

Description of the operation

The spin-off operation consisted of the partial spin-off by SANPAOLO IMI and the simultaneous transfer to Beni Stabili (a 99.9999997% owned subsidiary held by SANPAOLO IMI), of a package of SANPAOLO IMI's assets and liabilities (the "Abstract of Assets and Liabilities") comprising:

(a) properties belonging to SANPAOLO IMI;

(b) the equity investments held by SANPAOLO IMI in Sviluppi Immobiliari SpA (100 %) and IMIGEST IMMOBILIARE SpA (100 %);

(c) receivables due to SANPAOLO IMI from Sviluppi Immobiliari SpA and IMIGEST IMMOBILIARE SpA;

(d) the equity investment in UNIM SpA (2.56%);

(e) liquid funds of Euro 96 million, notwithstanding that part of these liquid funds was replaced – in the amount indicated below - with the 37% interest in Acqua Pia Antica Marcia SpA provided:

- that, the spinning-off company makes an irrevocable and unconditional agreement concerning this interest with the Fedorex N.V. Group by the date of SANPAOLO IMI's extraordinary shareholders' meeting called to approve the Spin-off Proposal; and
- that, before the spin-off's effective start date, the above investment is effectively acquired;

Fedorex N.V. (a Dutch company, controlled by the Ignazio Caltagirone Trust, which belongs to the Francesco Bellavista Caltagirone family) held a 50.74% interest in the share capital of Gedeam Investment Group Inc. S.A. (a Luxembourg-based company). The remaining 49.26% was owned by SANPAOLO IMI. Gedeam Investment Group Inc. S.A., in turn, held 90% of the share capital of Acqua Pia Antica Marcia SpA. On the basis of the agreements with the Fedorex N.V. Group, SANPAOLO IMI would transfer its 49.26% interest in Gedeam Investment Group Inc. S.A. to Fedorex N.V. and receive in exchange a 37% holding in Acqua Pia Antica Marcia SpA[1] as well as a series of property investments in companies, including those governed by foreign law and otherwise, to which – on the basis of the afore-mentioned agreements - the properties in Lecco, S. Giovanni Lupatoto (Verona) and Beausoleil will be conferred and/or transferred; these

[1] The purchase of a 37% interest in Acqua Pia Antica Marcia SpA will not entail a public offer as required by art. 106 of Decree 58 dated 24 February 1998, since Gedeam Investment Group Inc. S.A. will retain a 53% interest in the share capital of Acqua Pia Antica Marcia SpA.

properties are currently owned by a company within the Fedorex N.V**.** Group, and have been valued, on the basis of appraisals prepared by Richard Ellis, at Euro 68 million[2], carrying mortgages of Euro 45 million.

As a result of the matters discussed in the Spin-off Proposal and the Reports by the Boards of Directors, the investment in Acqua Pia Antica Marcia SpA replaced a part of the liquid funds indicated in letter e) above, worth Euro 0,37 million.

In addition, Beni Stabili had agreed to buy from SANPAOLO IMI the interests in the companies mentioned above– subject to completion of agreements between the Fedorex N.V. Group and SANPAOLO IMI – for an amount not exceeding Euro 23 million, as well as assuming responsibility for the mortgages relating to the properties in question. Beni Stabili’s willingness to purchase is based on the beneficiary company’s interest in combining the properties in Lecco and S. Giovanni Lupatoto with those already belonging to subsidiaries of Sviluppi Immobiliari SpA which now are wholly owned by Beni Stabili.**]**

(a) assets for prepaid taxes, referring to the items transferred;

(b) liabilities for deferred taxes, referring to the items transferred; and

(c) guarantees deposits paid in cash by tenants.

As soon as the Spin-off took effect, the beneficiary company also acquired all the legal rights and obligations relating to the properties transferred (for example, the contracts for rental, sub-contracting and extraordinary maintenance will be transferred). The operation was carried out pursuant to and in respect of articles 2504 *septies et seq*. of the Italian Civil Code.

The Spin-off Proposal was expressly dependent on authorisation by the Bank of Italy. This authorisation was given by the Bank of Italy under Order No. 8528 dated 17 June 1999. Completion of the operation is also dependent on the prior admission of Beni Stabili to the official stockmarket list. The beneficiary company and the spinning-off company have already made contact with the Consob and the Italian Stock Exchange for this purpose.

The request to admit Beni Stabili’s shares to the official stockmarket list was approved by the meeting of Beni Stabili’s shareholders called to approve the Spin-off Proposal. The request to admit the shares to the official stockmarket list was presented immediately after this shareholders’ meeting. The beneficiary company didn’t request a listing in the United States of America. We had already contacted the US stockmarket regulator (the SEC) to explain the spin-off procedure and to agree the requirements to be fulfilled and the type of information to provide to shareholders.

The effects of the spin-off ran from 23.59 hours on the last day of the calendar month in which the last of the spin-off formalities was completed with the relevant Register of Companies. As of this date the assets and liabilities and the rights and obligations relating to the Abstract became the property of Beni Stabili. Upon transfer, Beni Stabili’s ordinary shares were admitted to the Italian Stock Exchange.

[2] The appraisal takes into consideration the value of the property once construction work has been finished.

Sanpaolo IMI's goals under this spin-off are the following:

- to reduce the property portfolio with particular reference to the part not used in banking activities;

- to rationalise its property-related activities, as regards the size of the property portfolio and the structure of its subsidiaries operating in the property sector;

- to concentrate activities and resources on the core business of banking and finance;

- to give SANPAOLO IMI's shareholders the possibility of owning shares in a stockmarket-listed property company, capable of managing and specifically developing the assets transferred under the spin-off.

The Abstract's spin-off to Beni Stabili allowed:

- the beneficiary company to increase the value of its current equity, thanks to aggregation of the Abstract's property portfolio;

- synergies to be created between the activities of the beneficiary company and those of the equity investments included in the Abstract, namely Sviluppi Immobiliari SpA and IMIGEST IMMOBILIARE SpA; and

- the creation of a company of a size and whose prospects enable it to list its shares on the Italian Stock Exchange.

From an accounting point of view, the operation caused the following changes in SANPAOLO IMI's net equity:

(a) Share capital went down by Euro 413 millions from Euro 4,345 millions to Euro 3,932 millions;
(b) the Legal reserve went down by Euro 83 millions from Euro 869 millions to Euro 786 million;
(c) Other reserves went down by Euro 177 million from Euro 1,304 millions to Euro 1,127 million, as follows:

merger surplus	*Euro 107 million*
reserve under Law 169/83	*Euro 60 million*
reserve under articles 3 and 7 of Law 218/90	*Euro 9 million*
reserve under articles 6 and 13 of Decree Law 124/93	*Euro 0,1 million*

After completing these operations, SANPAOLO IMI's net equity is made up as follows:

(in millions of Euro)

	Composition of SANPAOLO IMI's net equity after allocating 1998 net profit	Adjustments relating to the spin-off	Composition of SANPAOLO IMI's net equity after the spin-off
Share capital	4,345	(413)	3,932
Legal reserve	869	(83)	786
Other reserves:	1,304	(177)	1,127
Reserve art. 7.3 Law 218/90	*89*	*(9)*	*80*
Reserve Law 169/83	*72*	*(60)*	*12*
Reserve art. 21 of Decree Law 213/98	*41*	-	*41*
Reserve art.13.6 of Decree Law 124/93	*1*	-	*1*
Merger surplus	*1,101*	*(108)*	*993*
Reserve for general banking risks	336	-	336
	6,854	*(673)*	6,181

The beneficiary company's book net equity as of December 31, 1998 came to Euro 11 million, consisting of share capital of Euro 14 million, reserves of Euro 0,2 million and accumulated losses of Euro 3 million (after allocating the 1998 net profit). Following the shareholders' resolution in extraordinary meeting on 22 April 1999, Beni Stabili had (i) recapitalised the full amount of the accumulated losses by a partial reduction in share capital to Euro 11 million, reducing the par value of the 49,500,000 ordinary shares from Euro 0,29 each to Euro 0,22 each and (ii) simultaneously increased share capital from Euro 11 million to Euro 83 million, by issuing 321,750,000 new shares of par value Euro 0,22 and a premium of Euro 0,21 each, fully subscribed within the terms of the law by SANPAOLO IMI and the sole minority shareholder. On completing the capital increase, the beneficiary company's net equity increased from Euro 11 million (as of 31 December 1998) to Euro 149 million.

As a result of transferring the Abstract under the spin-off, book net equity in Beni Stabili will increase by an additional Euro 672 million to Euro 821 million, comprised as follows (in millions of Euro):

Share capital (divided into 1,671,835,900 ordinary shares of par value Euro 0.10 each)	173
Share permium reserve	66
Legal reserve	0,012
Other reserves	0,001
Share exchange difference	582
Total net equity	821

The share exchange difference of Euro 582 million was allocated to the specific balance-sheet captions upon approval of Beni Stabili's financial statements as of 31 December 1999.

In particular, the assets and liabilities of the Abstract subject to spin-off are presented in the table below:

		(in millions of Euro)
ASSETS		ABSTRACT
PROPERTY		
Property used by the commercial network		137
Property not used by the commercial network		215
Other property		27
		379
EQUITY INVESTMENTS		
Investments in listed companies		23
Investments in unlisted companies		26
		49
RECEIVABLES		
Receivables due from subsidiary companies		175
		175
OTHER ASSETS		
Assets for prepaid taxes		3
Liquid funds		96
		99
TOTAL ASSETS		702
LIABILITIES		ABSTRACT
SHARE CAPITAL AND EQUITY RESERVES		
Share capital		413
Legal reserve		83
Other reserves		177
of which:	*Merger surplus*	*108*
	Reserve Law 169/83	*60*
	Reserve art.7.3 Law 218/90	*9*
	Reserve art. 13.6 Decree Law 124/93	*0*
		672
ACCUMULATED DEPRECIATION		
Property used by the commercial network		-
Property not used by the commercial network		-
Other property		-
		-
PROVISIONS FOR RISKS AND CHARGES		
Taxation		29
		29
OTHER LIABILITIES		-
		-
TOTAL LIABILITIES		701

Effects of the spin-off on SANPAOLO IMI's net equity

As a result of the spin-off for Euro 672 million, the Bank's net equity decreased by the same amount.

Taking account of the size and type of the assets and liabilities forming the Abstract, the following approach has been adopted to identify which elements of SANPAOLO IMI's net equity should be reduced in this operation:

1. identification of the specific equity accounts to reinstate under tax regulations relating to reserves enjoying a deferred tax status;

2. application of a proportionate method (spin-off equity versus total pre-spin-off equity) for other earnings-related reserves;

3. reduction of share capital and a proportionate reduction in the legal reserve (20% of share capital), for the balance.

The items of SANPAOLO IMI's net equity remaining completely unchanged were the Reserve for General Banking Risks (since it was connected to the Banking business) and the Reserve under Decree Law 213/98 (since it related to foreign equity investments not transferred under the spin-off).

The reduction in the share capital, by reducing the par value of the shares from Euro 3,10 to Euro 2,8. Pursuant to the provisions of article 17 of Decree Law 213 of 24 June 1998, this conversion was be authorised by the Board of Directors, without the need for a shareholders' resolution in extraordinary meeting.

Economic effects of the spin-off on SANPAOLO IMI and the Group

With reference the 1998 results and taking into consideration:

- the costs and revenues relating to the property portfolio, and in particular:

- lower rental income on properties currently rented to third parties and transferred to the beneficiary company;
- new rental expense which the Bank incured in relation to the properties currently used;
- lower depreciation charges on property transferred;
- lower indirect taxation (ICI - local property tax);
- lower maintenance and running expenses for the assets;

- the results of the equity investments currently consolidated on a line-by-line basis (IMIGEST Group);

- income on receivables and liquid funds transferred;

- income taxes,

The Bank's annual net profit for 1999 went down by around Euro 3,2 million. The net effect as far as the Group was be basically insignificant.

In addition, there were the effects on the Bank's results for the year linked to the transfer of the 2.56% interest holding in UNIM to the beneficiary company. There was over Euro 41,32 million in gross unrealised capital gains on this interest on the basis of current stockmarket prices.

The reduction in the net equity of the SANPAOLO IMI Group under the spin-off should help raise ROE by around one percentage point from the year 2000.

Effects on capital requirements for supervisory purposes

The spin-off didn't have a significant impact for the purposes of complying with the supervisory rules on capital adequacy. In fact, even taking account of the fact that this operation reduced SANPAOLO IMI's capital for supervisory purposes and its risk-weighted assets, the results show that:

- as regards individual requirements: the capital adequacy ratio for "credit risks" was about 10.7% (11.6% as of 31/12/98) while the ratio for "total risks" was about 9.8% (10.7% as of 31/12/98). The available margin (approximately Euro 3,305 million as of 31 December 1998) came down by about Euro 196 million;

- as regards consolidated requirements: the capital adequacy ratio for "credit risks" was about 1l.8% (12.6% as of 31/12/98) while the ratio for "total risks" was about 10.3% (11.1% as of 31/12/98). The available margin (approximately Euro 6,456 million as of 31 December 1998) came down by about Euro 181 million.

As regards the situation of "Significant Exposures", the reduction in net equity may caused some new positions to emerge. As far as these positions were concerned, SANPAOLO IMI had ample room to intervene by using instruments substituting capital (for example, preference shares and subordinated loans) and by reducing the risk to assets (for example, via the use of credit derivatives).

(z) Stock option plan

Implementing the shareholders' resolution passed at the meeting held on July 31, 1998, on February 9, 1999, the Bank's Board of Directors launched a stock option plan, structured as follows:

a) *Beneficiarie*s: the Managing Directors and 56 top managers within the Group, as identified by the Managing Directors with the Chairman's agreement.

b) *Rights decided by the Board of Director*s: 7,000,000 rights to buy 7,000,000 shares.

c) *Rights assigne*d: 6,772,000, of which 370,000 to each of the Managing Directors and 6,032,000 to the 56 managers.

d) *Duratio*n: three years from January 1, 1999.

e) *Exercising right*s: a third of the rights can be exercised after the shares become ex-dividend for the financial year 1999, another third when they become ex-dividend for the financial year 2000 and the final third when they become ex-dividend for the financial year 2001. Rights not exercised will expire by March 31, 2003.

f) *Subscription pric*e: initially set at 12.7746 Euro, which was the average market price of Sanpaolo IMI shares in the last quarter of 1998; subsequently adjusted to 12.3960 Euro to take account of the real estate spin-off to Beni Stabili in October.

g) *Increase in share capital and impact on net equit*y: if all 6,772,000 rights were to be exercised, this would lead to an increase in share capital of Euro 19 million (0.48%), booking additional paid-in capital of Euro 65 million.

h) *Restriction*s: exercising rights may be subject to restrictions and cancellations, which are detailed in the stock option plan regulations; such restrictions relate to the transferability of the rights and the role of the beneficiaries in the organization.

The following table presents options granted, exercised or expired:

	Year Ended December 31, 1999	
	Shares	Option Price per Share
Balance, beginning of year	-	-
Options granted	6,772,000	12.396
Options exercised	-	-
Options expired or terminated	-	-
Balance, at end of year	6,772,000	12.396

The fair value of each option was estimated on the date granted using the Cox – Rubinstain option pricing binomial model. The fair value of the option granted in 1999 was estimated to be Euro 24 million. The following weighted-average assumptions were used for grants in 1999: risk free interest rate of 3,5%; expected life of four years and expected volatility of 35%.

As of December 31, 1999, the Group maintains a stock-based compensation plan. The group applies APB Opinion 25 and related Interpretations in accounting for this plan under U.S. GAAP.

Had the compensation cost for the Group's stock based compensation plan been determined based on the fair value at the grant date for awards under this plan consistent with the method of SFAS No 123, the Group's net income and earnings per share would have been reduced to the pro-forma amounts indicated below:

	As reported	**Pro-forma**
Net income (millions of Euro)	842	834
Basic earnings per share (Euro)	0,60	0,60
Diluted earnings per share (Euro)	0,60	0,60

Attachments

Statement of changes in Group share of consolidated shareholders' equity as of December 31, 1999

in millions of Euro

	Capital	Reserves: Legal reserve	Reserves: Other reserves	Reserve for general banking risks	Net income for the year	Total
Pro forma shareholders' equity as of December 31. 1998	**4.345**	**869**	**2.186**	**359**	**909**	**8.668**
Allocation of 1998 net income:						
- to reserves	-	-	257	-	(257)	-
- to shareholders	-	-	-	-	(652)	(652)
Real estate spin - off	(413)	(83)	(205)	-	-	(701)
Conversion of Share capital into Euro	(6)	6				-
Change in reserve for general banking risk	-	-	-	1	-	1
Difference arising on the translation of foreign currency financial statements and other adjustments	-	-	5	1	-	6
Net income for the year	-	-	-	-	1.050	1.050
Shareholders' equity of December 31, 1999	**3.926**	**792**	**2.243**	**361**	**1.050**	**8.372**
Own shares in portfolio	-	-	(336)	-	-	(336)
Shareholders' equity as er the reclassified balance sheet as of December 31, 1999	**3.926**	**792**	**1.907**	**361**	**1.050**	**8.036**

Reconciliation of the Bank's financial statements and the consolidated financial statements for 1999:

(in millions of Euro)

	Net income for the year	Capital and reserves	Shareholders' equity	Reserve for possible losses	Total
Per financial statements of the Bank (*)	1.018	6.182	7.200	-	7.200
Balance of subsidiary companies consolidated line-by-line	634	4.347	4.981	29	5.010
Consolidation adjustments					
- carrying value for equity investments	-	-3.182	-3.182	-	-3.182
- dividends	-559	432	-127	-	-127
- elimination of writedowns made to cover losses of companies consolidated line-by-line or using the equity method	5	-	5	-	5
- amortization of goodwill on consolidation	(28)	(87)	-115	-	-115
- offsetting of goodwill on consolidation	-	(75)	-75	-	-75
- effect of valuation at net equity	118	199	317	-	317
- gains on the disposal of equity investments	(51)	33	-18	-	-18
- other (*)	(25)	(50)	-75	-	-75
- minority interests	(62)	(477)	-539	-	-539
Balance as per consolidated financial statement	1.050	7.322	8.372	29	8.401

(*) Other consolidation adjustments relate mainly to bringing the accounting principles of the subsidiary companies into line with those of the Bank.

List of shareholdings at december 31, 1999 superior to 10% of ordinary voting rights in unquoted companies or limited liability companies (Consob 11715 of November 24, 1998) (1)

Name	Shareholder		%
1650 Mission associates limited partnership	SPB 1650 VAN NESS CORPORATION		13,75
1650 Mission corporation general partner	SPB 1650 VAN NESS CORPORATION		13,89
Bergamina	SANPAOLO IMI		100,00
Bergamo esattorie	SANPAOLO IMI		11,35
Biessefin in liquidation	SANPAOLO IMI		36,10
Brummel International limited	WOBCO HOLDING		100,00
Celeasing S.r.l.	SANPAOLO IMI		100,00
Chateau bolides	UNO IMMOBILIARE in liquidazione		49,00
Cifrali 8	BANQUE SANPAOLO S.A.		18,30
Cifrali 9	BANQUE SANPAOLO S.A.		14,09
Cive	SANPAOLO IMI		68,97
Dott.ing. Giuseppe Torno & c. in liquidation	SANPAOLO IMI		21,91
Dulevo	SANPAOLO IMI		16,30
Elvetia edile	SANPAOLO IMI		100,00
Feic- Finanziaria ecomomia ittica cooperativa	SANPAOLO IMI		17,24
Fin.lavori	SANPAOLO IMI		44,22
Findirama in liquidation	APOKE' TWO in liquidazione		62,86
	UNO HOLDING in liquidazione		3,96
		TOTAL	**66,82**
Finlombarda leasing	SANPAOLO IMI		14,00
Fonti di gaverina	SANPAOLO IMI		51,04
Giacinto in liquidation	APOKE' TWO in liquidazione		100,00
Guiness peat aviation a.t.r. ltd	SANPAOLO BANK IRELAND PLC		12,50
Iam Piaggio	BANCA FIDEURAM		3,86
	SANPAOLO IMI		10,00
		TOTAL	**13,86**
Immobiliare dell'Isola Cattaneo	SANPAOLO IMI		48,57
Immobiliare Peonia Rosa	SANPAOLO IMI		57,00
Impianti	SANPAOLO IMI		14,16
Integrated shipping company -I.S.Co.	SANPAOLO IMI		100,00
Interbank online system limited	SANPAOLO IMI		12,50
Ittica Ugento	SANPAOLO IMI		26,96
Kish receivables company	TOBUK LIMITED		19,70
Konig	SANPAOLO IMI		20,00
Kyle receivables company	TUSHINGHAM LIMITED		11,11

Name	Shareholder	%
Leasarte	SOFIR'S	100,00
Lillo	SANPAOLO IMI	50,00
Lo.Se.Ri.	SANPAOLO IMI	18,40
Milanosole	APOKE' TWO in liquidazione	32,55
Newgrange financial services company	BONEC LTD	14,79
Nuova Valvotecnic	IMI INTERNATIONAL S.A.	16,67
Pantecna in fallimento	SANPAOLO IMI	15,50
Receivables servicing company	LACKENSTAR LTD	15,76
Rimoldi Necchi S.r.l.	NHS NUOVA HOLDING SUBALPINA	16,92
S.A. Immobiliere de construction de Monteclin en liqu	BANQUE SANPAOLO S.A.	11,30
S.C.I. Balcons Sainte Marie	BANQUE SANPAOLO S.A.	18,00
S.C.I. Boissy Griselle 7	SOCIETE' FONCIERE D'INVESTISSEMENT	99,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	1,00
	TOTAL	**100,00**
S.C.I. Boissy R.E.R. 8	SOCIETE' FONCIERE D'INVESTISSEMENT	99,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	1,00
	TOTAL	100,00
S.C.I. Boissy R.E.R 5	SOCIETE' FONCIERE D'INVESTISSEMENT	90,00
S.C.I. Boissy Saint Leger 94	SOCIETE' FONCIERE D'INVESTISSEMENT	99,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	1,00
	TOTAL	**100,00**
S.C.I. La Source de Saint Hilarie	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	98,00
S.C.I. Le Chevalier	SOCIETE' FONCIERE D'INVESTISSEMENT	1,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	99,00
	TOTAL	**100,00**
S.C.I. Le Clos de Noyer in liquidation	BANQUE SANPAOLO S.A.	15,00
S.C.I. Les Balcons du Drac	BANQUE SANPAOLO S.A.	15,41
S.C.I. Les Jardin de Farnese in liquidation	SANPAOLO GESTION IMMOBILIERE	11,11
S.C.I. Plein Ciel	BANQUE SANPAOLO S.A.	12,00
S.C.I. Praly III	BANQUE SANPAOLO S.A.	12,00
S.C.I. Rognac – Nord	SOCIETE' FONCIERE D'INVESTISSEMENT	50,00
S.G.R. Società Gestione per il Realizzo	BANCA FIDEURAM	0,63
	SANPAOLO IMI	9,48
	TOTAL	**10,11**
Sago (2)	SANPAOLO IMI	26,67
Serdi et compagnie	SOCIETE' FONCIERE D'INVESTISSEMENT	1,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT	99,00
	TOTAL	**100,00**

Name	Shareholder		%
Soc. d'amenagements de zones ind. et comm. – sazic	SOCIETE' FONCIERE D'INVESTISSEMENT		99,00
	SOCIETE' IMMOBILIERE D'INVESTISSEMENT		1,00
		TOTAL	**100,00**
Società italiana di monitoraggio	SANPAOLO IMI		16,67
Società' nazionale finanziaria	SOFIR'S		15,25
Sofir's	UNO HOLDING in liquidazione		100,00
Sogepi et C.ie Le Fournas snc	BANQUE SANPAOLO S.A.		12,50
Stare	APOKE' TWO in liquidazione		92,77
Tecno idro meteo (2)	SANPAOLO IMI		36,00
Tecnoalimenti (2)	SANPAOLO IMI		30,00
Tecnobiomedica (2)	SANPAOLO IMI		26,32
Tecnocittà S.r.l.	SANPAOLO IMI		12,00
Tecnofarmaci (2)	SANPAOLO IMI		20,50
Tecnogen (2)	SANPAOLO IMI		29,96
Tecnotessile (2)	SANPAOLO IMI		40,00
Torsyl S.A. in liquidation	IMI INTERNATIONAL S.A.		15,79
Uno Broker in liquidation	SOFIR'S		100,00
Uno Holding in liquidation	APOKE' TWO in liquidazione		73,76
	FINDIRAMA in liquidazione		3,50
		TOTAL	**77,26**
Uno Immobiliare in liquidation	APOKE' TWO in liquidazione		19,31
	UNO HOLDING in liquidazione		56,95
		TOTAL	**76,25**
Wobco holding	GED. I. T. - GEDEAM INVESTISSEMENTS		100,00
Zwhalen & Mayr S.A.	IMI INTERNATIONAL S.A.		12,96

(1) The list does not include shareholdings already given in Note 13

(2) Shareholdings resulting from transactions pursuant to Law 1089, October 25, 1968 (Fund for Applied Research)

EXHIBIT 1.1

ARTICLES AND BY-LAWS
of
SANPAOLO IMI S.p.A.

SANPAOLO IMI S.p.A.
A Company registered in the Register of Banks
Reporting Bank for Bank of Italy purposes of the SAN PAOLO-IMI Banking Group registered in the Register of Banking Groups
Registered Office at Piazza San Carlo 156, Turin, Italy
Share capital of Euro 3,929,629,754.4 wholly paid up
Registered in the Company Register of Turin under No. 4382/91 at the Tribunal of Turin
Tax code and V.A.T. number 06210280019
Italian Banking Association code number 1025-6
Member of the Interbank Deposit Guarantee Fund

ARTICLES OF ASSOCIATION

SECTION I
CONSTITUTION - REGISTERED OFFICE - LIFE AND PURPOSE OF THE COMPANY

ARTICLE 1

The Company is called “SANPAOLO IMI S.p.A.” and is constituted as a company limited by shares.
The Company is a Bank according to the terms of Legislative Decree 385 of September 1, 1993.
The Company is the result of the merger by incorporation into the “Istituto Bancario San Paolo di Torino Società per Azioni” (a Company established by notarial deed dated October 31, 1991 of the Notary Public Ettore Morone as part of the restructuring project planned by the Istituto Bancario San Paolo di Torino, approved according to Law 218 of July 30, 1990 and Legislative Decree 356 of November 20, 1990, with the Decree of the Treasury Minister of October 28, 1991) of the incorporated entity “Istituto Mobiliare Italiano S.p.A.” (a Company resulting from the transformation of the Istituto Mobiliare Italiano - a Public Entity established by Royal Legislative Decree 1398 of November 13, 1931, converted with modifications in Law 1581 of December 15, 1932 – following the restructuring project planned according to Law 218 of July 30, 1990 and Legislative Decree 356 of November 20, 1990).
The Company can use in its corporate design the trademarks of the incorporating Company and of the incorporated companies as long as they are accompanied by their own name.

ARTICLE 2

The Company has its registered office at Piazza San Carlo 156, Turin, Italy and a secondary office, with permanent establishment, at Viale dell’Arte 25, Rome.
Within the observance of the regulations in force, it may open and close branches and representative offices in Italy and abroad.

ARTICLE 3

The life of the Company is fixed until December 31, 2100.
The extension of the life of the Company must be approved by the Extraordinary Meeting of Shareholders with a legal majority.

ARTICLE 4

The Company has as its purpose the collection of deposits from the public and the business of lending in its various forms, in Italy and abroad.
The Company can undertake, within the limits of the regulations in force, all banking and financial transactions and services as well as any other transaction in the way of business and in whatever way related to the achievement of its corporate objective.
The Company can also undertake all the activities which the Istituto Bancario San Paolo di Torino and the Istituto

Mobiliare Italiano were authorised to carry out according to law or administrative regulations.
The Company - in its capacity as Reporting Bank for Bank of Italy purposes of the SANPAOLO IMI Banking Group according to the terms of Article 61 of Legislative Decree 385 of September 1, 1993 - issues, in the exercise of its function of management and coordination, instructions to the members of the Group for the execution of the instructions issued by the Regulatory Authorities in the interests of stability of the Group itself as a whole.

ARTICLE 5

The Company can issue bonds and other securities according to the regulations in force.

SECTION II
SHARE CAPITAL AND SHARES

ARTICLE 6

The share capital is 3,929,629,754.4 Euro (three billion, nine hundred and twenty nine million, six hundred and twenty nine thousand, seven hundred and fifty four point four) divided into 1,403,439,198 ordinary shares with a nominal unit value of 2.8 Euro. The share capital may also be increased through the issue of shares with rights different from those included in the shares already issued.
The ordinary shares are registered shares.
The Board of Directors has the power to increase the share capital, in one or more issues, up to an amount of Euro 7,500,000,000 (seven thousand five hundred million) nominal value and to issue, in one or more issues, convertible bonds and/or bonds with warrants, up to the same amount but which may not exceed the limits fixed by law from time to time. This authority may be exercised before April 28, 2004.
The Board of Directors also has the power to increase the share capital by means of a paid up rights issue, in one or more issues, up to a maximum amount of Euro 40,000,000 (fourty million) nominal value, through the issue of ordinary shares reserved, according to Article 2441, par. 8, of the Civil Code and Article 134 of Legislative Decree 58 of February 24, 1998, to employees of the Company or also to employees of subsidiary companies, according to Article 2359 of the Civil Code, who participate in the share incentive schemes approved by the Board itself. This power may be exercised before July 28, 2003.
With reference to the mandate referred to in the preceding paragraph, the Board of Directors approved on February 9, 1999, as modified on December 21, 1999, the increase of paid up capital for a maximum nominal amount of 19,600,000 Euro (nineteen million six hundred thousand).

ARTICLE 7

In the case of an increase in the share capital, approved by the Shareholders' Meeting, the methods and the conditions related to the issue of new capital, the dates and the methods of payment, will be determined by the Board of Directors.
In the case of late payment, annual interest, set by the Board of Directors but in any case not exceeding 3% more than the official discount rate, will be applied. The legal consequences for any shareholder who does not execute the payments due and the responsibility of the issuers or endorsers/guarantors of shares not released remain the same.
Delivery may be made against goods different from cash.
The Company can acquire its own shares within the limits and according to the procedures established by the regulations in force.

SECTION III
SHAREHOLDERS' MEETING

ARTICLE 8

The Shareholders' Meeting is ordinary or extraordinary according to the terms of the law and can be called in Italy not necessarily at the registered office.
The ordinary Shareholders' Meeting is called at least once a year within four months of the end of the financial year or, when particular circumstances demand, within six months.
The extraordinary Shareholders' Meeting is called to approve matters reserved to it by law or by these articles of association.
Allowing for the faculty of summons established by specific legal requirements, the Shareholders' Meeting must be called by the Chairman of the Board of Directors or by his Deputy, in the terms and with the formalities prescribed by the regulations currently in force.

ARTICLE 9

Participation and representation in the Shareholders' Meeting are regulated by the regulations currently in force.

ARTICLE 10

Every ordinary share confers the right to one vote.

ARTICLE 11

The validity of the Shareholders' Meeting, both ordinary and extraordinary, and both at the first call and at the second or third calls, as established by law, as also for the validity of related motions, is determined by the law.
For the nomination of the corporate officers a relative majority is sufficient. In the case of a tie, the older candidate will be elected. For the nominations to the Board of Statutory Auditors, the procedure follows that established by Article 19.
Majorities of approval are calculated without taking account of abstentions.

ARTICLE 12

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or by his Deputy.
The Shareholders' Meeting nominates, on the motion of the Chairman, when held appropriate, two or more scrutineers and a Secretary, not necessarily shareholders.
The assistance of the Secretary is not necessary when the minutes of the Shareholders' Meeting are taken by a Notary Public. The Notary is designated by the Chairman of the Shareholders' Meeting.
It is the responsibility of the Chairman to control the right to speak, including proxies, to ascertain if the Shareholders' Meeting is properly organised and of the legal quorum to approve motions, to manage and regulate the proceedings of the Shareholders' Meeting, to fix the methods of voting and to announce the results of such votes.
If debate concerning the agenda of the day is not finished within the day, the Shareholders' Meeting can proceed to a further meeting on the following non-holiday day.

ARTICLE 13

The discussions of the Shareholders' Meeting must include the minutes signed by the Chairman, by the scrutineers, if nominated, and by the Secretary or Notary Public.
Copies of the minutes will be certified with the declaration of conformity, signed by the Chairman and by the Secretary.

SECTION IV
DIRECTORS

ARTICLE 14

The Company is directed by a Board of Directors composed of a number of members between seven and 20 according to motions approved by the Shareholders' Meeting. The Shareholders' Meeting itself appoints one of them as Chairman.
The Directors' term of office is three years and they may be re-elected.
Termination, substitution, resignation and annulment on the part of the Directors are governed according to the law.
If, because of resignation or other reasons, there is no longer a majority of the Directors elected by the Shareholders' Meeting, the whole Board of Directors must declare its resignation and proceed to call a Shareholders' Meeting as soon as possible for its re-election.

ARTICLE 15

The Board of Directors can appoint, from among its members, one or more Deputy Chairmen.
The Board of Directors appoints, and assigns powers to, one or more Managing Directors as well as the Executive Committee.
The Board of Directors elects from among its members the Executive Committee and lays down the number of its members, its powers, its duration, rules and powers.
In the Executive Committee the Chairman and the Deputy Chairman or Deputy Chairmen sit ex officio as well as the Managing Director or Managing Directors.
The Board of Directors can also appoint, from among its members, special Committees, with consultative and advisory functions.
The General Manager or General Managers take part in the meetings of the Board of Directors and of the Executive Committee in a consultative role.
In the matter of extending loans and current management, powers can also be delegated to the General Manager or General Managers, to the Deputy General Manager or Deputy General Managers, to Central Management, to Top and Senior Management, individually or collectively in meetings as well as to employees and other personnel within predetermined limits of responsibility.
For special and/or subsidised lending governed by specific regulations, powers of approval and drawdown can be delegated to the Group's banking subsidiaries within the limits and according to the criteria agreed between the parties.
The Board will determine the methods through which decisions taken by those delegated are brought to the attention of the Board itself.
The annual remuneration of the members of the Board of Directors as well as that of the Executive Committee is determined by the Shareholders' Meeting. The annual remuneration will be in part fixed and in part variable.
The remuneration of the executive directors with particular responsibilities according to the Articles of Association will be fixed by the Board of Directors, having heard the opinion of the Board of Statutory Auditors.
The Shareholders' Meeting may decide, in addition to the remuneration above, the payment to each executive director of a fixed sum for every attendance at the meetings; the Executive Directors have the further right to reimbursement of expenses incurred in the course of their duties and to the payment of daily allowances as decided by the Shareholders'

Meeting.

ARTICLE 16

The Board of Directors has all powers to exercise the ordinary and extraordinary management of the Company except those expressly accorded by law or by the Articles of Association to the exclusive responsibility of the Shareholders' Meeting.
The following matters are the exclusive responsibility of the Board of Directors:

- approvals regarding general management direction, the approval and modification of general regulations regarding business relationships, investment and divestment of shareholdings which may modify the composition of the Banking Group, the nomination of responsibilities in accordance with paragraph 1 of Article 20;
- the establishment of the criteria for co-ordination and management of the Group's Companies and for the execution of instructions received from the Bank of Italy.
-

ARTICLE 17

The Board of Directors is convened whenever the Chairman considers it necessary or opportune and generally every two months, and also to refer to the Board of Statutory Auditors on business carried out and transactions of greatest importance in economic, financial and equity capital terms undertaken by the Company and/or by subsidiary companies as well as, in particular, transactions with potential conflicts of interest.
Leaving those powers reserved by law to the Statutory Auditors, a meeting must also take place when at least three Directors or a Managing Director make a written request to the Chairman with an indication of their reasons.
Meetings of the Board of Directors are held regularly at the registered office of the Company. The Board of Directors may also meet in any other place in Italy or abroad.
Notice of the meeting, with a summary agenda of the matters to be discussed, must be sent to the Directors and to the Statutory Auditors in office at least five days before that fixed for the meeting by registered post or telegram or telex or telefax. In cases of particular urgency the meeting may be held with simple advance notice of 24 hours by any suitable means.
Meetings of the Board of Directors may be validly held in videoconference as long as both the exact identification of persons permitted to be present and the possibility for all participants to take part, in real time, on all subjects under discussion is guaranteed. At least the Chairman and the Secretary must however be present in the place where the meeting of the Board is called where it may be considered held.
To approve the decisions of the Board a majority of the Directors in office must be present at the meeting. Decisions are taken according to absolute majority of the votes of the members present excluding abstentions. Decisions concerning the nomination of the Deputy Chairman or Deputy Chairmen, of the Executive Committee, of the Managing Director or Managing Directors are properly taken with a yes vote from half plus one of the Directors in office. In case of a tie, the Chairman's vote prevails.
The minutes of the meeting of the Board of Directors are edited and transcribed in the register of minutes by a Secretary designated by the Board.
Copies and extracts of the minutes are certified, with a statement of conformity, signed by the Chairman and the Secretary.
In the meetings that the Board wishes to keep confidential, the duties of the Secretary will be carried out by the youngest Director of those present.
The agenda for the Board of Directors and for the Executive Committee are prepared by the Managing Director or Managing Directors according to the powers delegated to them.
In particular, the Managing Director or Managing Directors are responsible for the general management of the Company, for business and lending as well as personnel management.

ARTICLE 18

The Chairman is the legal representative of the Company in dealings with third parties.

Furthermore, the Chairman:

a) chairs the meetings of the Board of Directors and the Executive Committee;
b) prepares the agenda of the meetings of the Board of Directors and the Executive Committee, taking account also of the proposed agenda prepared by the Managing Director or Managing Directors;
c) authorises any legal, administrative and executive action in every competent court and in whatever level of jurisdiction with the ability to abandon it, to withdraw from proceedings and to accept similar withdrawals or relinquishments from other parties involved, with all subsequent opportunity and with the obligation to refer to the Executive Committee on the decisions taken;
d) takes, in agreement with the Managing Director, or with the respective Managing Director in the case of more than one Managing Director, whatever provision may be urgent in the interests of the Company, referring it to the Board of Directors and the Executive Committee at their next meeting;
e) exercises the role of coordination of the businesses of the Company.

In the case of absence or other impediment of the Chairman, his powers in all respects will be taken by the Deputy Chairman, or in the case of the nomination of more than one Deputy Chairman according to Article 15 above, the first nominated Deputy Chairman or, in case of the same date of nomination, the oldest in age. In the case of absence or other impediment of the same, the oldest by age will take his position.

When all the Deputy Chairmen are absent or unable, the powers of the Chairman pass to the Managing Director or Managing Directors and, in order to the other directors, according to the order of succession fixed by the Board of Directors.

SECTION V
BOARD OF STATUTORY AUDITORS

ARTICLE 19

The Shareholders' Meeting elects the Board of Statutory Auditors, composed of five Statutory Auditors in office and two Alternate Statutory Auditors.

The Statutory Auditors are in office for three years - except for changes in law - and are re-electable.

The whole Board of Statutory Auditors is nominated on the basis of lists presented by the shareholders in which the candidates must be listed in number order.

The lists must be deposited at the registered office and published in at least two Italian daily newspapers with national distribution, of which one should be devoted to economic news, at least 10 days before the day fixed for the Shareholders' Meeting at first call.

Every shareholder can present or compete in the presentation of only one list and each candidate can present himself in only one list or otherwise be declared ineligible.

Only those shareholders who themselves or together with other shareholders represent at least 1% of the shares with voting rights in the ordinary shareholders' meeting have the right to vote. In order to prove their ownership of the number of shares necessary for the presentation of the lists, the shareholders must at the same time present, at the registered office, certificates evidencing their inclusion in the centralised management system for financial instruments.

Together with each list, and before the time of depositing the list at the registered office, they must deposit their Curriculum Vitae undersigned and the declarations by which the individual candidates accept their candidature and affirm, at their own responsibility, that there are no reasons for ineligibility or conflict of interest as well as the existence of the necessary qualification required by the regulations in force to carry out the duties of Statutory Auditor.

Every shareholder having the right to vote may vote for only one list. At the election of the Board of Statutory Auditors, the procedures are as follows:

a) from the list which obtains the majority of the votes by the shareholders, in the numerical order in which they are listed in the list, three Statutory Auditors in office and one Alternate Statutory Auditor;
b) the remaining two Statutory Auditors and one Alternate Statutory Auditor are taken from the other lists; in order to do

this, the votes obtained by the lists themselves are divided successively by one, two and three. The quotients thus obtained are assigned in order to the candidates of each of the said lists according to the order set respectively in each.. The quotients thus attributed to the candidates on the various lists are then placed in a single descending order: the Statutory Auditors in office are those who have obtained the highest two quotients and the supplementary Statutory Auditor is the one who has obtained the highest third quotient.

In the case in which more than one candidate has obtained the same quotient, the candidate from the list which has still not elected a Statutory Auditor will be elected; in the case in which none of the lists has yet elected a candidate, there will be a new vote of the whole Shareholders' Meeting and the candidate who obtains the a simple majority of the votes will be elected.

For the nomination of candidates not elected for whatsoever reason according to the aforesaid procedures, the Shareholders' Meeting will approve according to legal majority.

The chairmanship of the Board of Statutory Auditors is taken by the person indicated in the first place in the list which has obtained the majority of the votes. In the case of substitution, the chairmanship, until the end of the mandate of the Board, will be taken by the next person in the same list.

In the case of the substitution of a Statutory Auditor taken from the list which has obtained the majority of the votes cast by the shareholders, the replacement will come from the same list; in the case of the substitution of a Statutory Auditor taken from the other lists, the replacement will be nominated according to the method set out in point (b) in this article.

The nomination of Statutory Auditors to make up the Board of Statutory Auditors is made by a relative majority of the Shareholders' Meeting according to Article 2401 of the Civil Code.

The Shareholders' Meeting fixes the remuneration of the Statutory Auditors. The Shareholders' Meeting may also decide, in addition to the remuneration, the payment to each Statutory Auditor of a fixed sum for every attendance at the meetings; the Statutory Auditors have the further right to reimbursement of expenses incurred in the course of their duties and to the payment of daily allowances as decided by the Shareholders' Meeting.

The members of the Board of Statutory Auditors cannot be in office in more than five offices as Statutory Auditor in office in other quoted companies with the exception of companies controlled by SANPAOLO IMI S.p.A.

SECTION VI
MANAGEMENT

ARTICLE 20

The Board of Directors nominates one or more General Managers and one or more Deputy General Managers and determines their roles and the length of their term of office. Alternatively, the Board of Directors nominates a Central Management and determines the number of its members, establishing the assignment of responsibilities as well as to the division of functions among the members.

The General Manager or General Managers, or the Central Management, report in the exercise of their responsibilities to the Managing Director or Managing Directors; they execute the decisions taken by the Board of Directors, by the Executive Committee by the Chairman and by the Managing Director or Managing Directors; they manage all current business, supervise the structure and functioning of services, allocate responsibilities and positions to staff with the exclusion of Top Management. They may delegate, also internally and in continuity, their own powers to the Deputy General Managers, to Top Management, Senior Management and other Personnel from Head Office, the regional organisation and the offices.

SECTION VII
LEGAL REPRESENTATION AND CORPORATE SEAL

ARTICLE 21

The legal representation of the Company, concerning third parties and in proceedings, and the corporate seal lie with the Chairman and, in the case of his absence or inability, with the Deputy Chairman or Deputy Chairmen, in order of length of service and age and, in their absence, with the Managing Director or Managing Directors separately. The Board may, for specific types of actions and business, delegate representative powers, with the ability to sign on behalf of the Company, to the Managing Director or Managing Directors, to individual Directors, to the General Manager or General Managers, to the Deputy General Manager or Deputy General Managers, to the staff of the Central Management, to Top and Senior Management and to other employees of the Company, determining the limits and the methods of use of such seal.

In cases in which the current Articles of Association allow substitutions for absence or inability, the action of the substitute has legal force in dealings with third parties.

SECTION VIII
FINANCIAL RESULTS AND PROFITS

ARTICLE 22

The financial year closes at 31 December each year.

Of the net profits deriving from the financial results, an amount equal to 10% shall be transferred to the legal reserve until it amounts to one fifth of the share/equity capital.

The Shareholders' Meeting, on the proposal of the Board of Directors, will decide how to allocate the remaining profit to shareholders and to other provisions to reserves.

The payment of dividends will take place in the manner and within the dates fixed by the motions of the Shareholders' Meeting which decides the distribution of profits to shareholders.

Dividends not claimed within five years following the day on which they are available, will be retained by the Company and placed to reserves.

The Board of Directors may approve the distribution of partial payments in advance of the dividends according to the in the manner and within the limits set by the arrangements in force at the time.

SECTION IX
STATUTORY OFFICERS

ARTICLE 23

Current legislative, regulatory and supervisory rules concerning standards of professional and honourable conduct apply to the Officers established in the current Articles of Association.

SECTION X
WINDING UP

ARTICLE 24

Given any different legal arrangement, if there is a reason for winding up, the Shareholders’ Meeting will establish the manner of liquidation, nominating one or more liquidators.